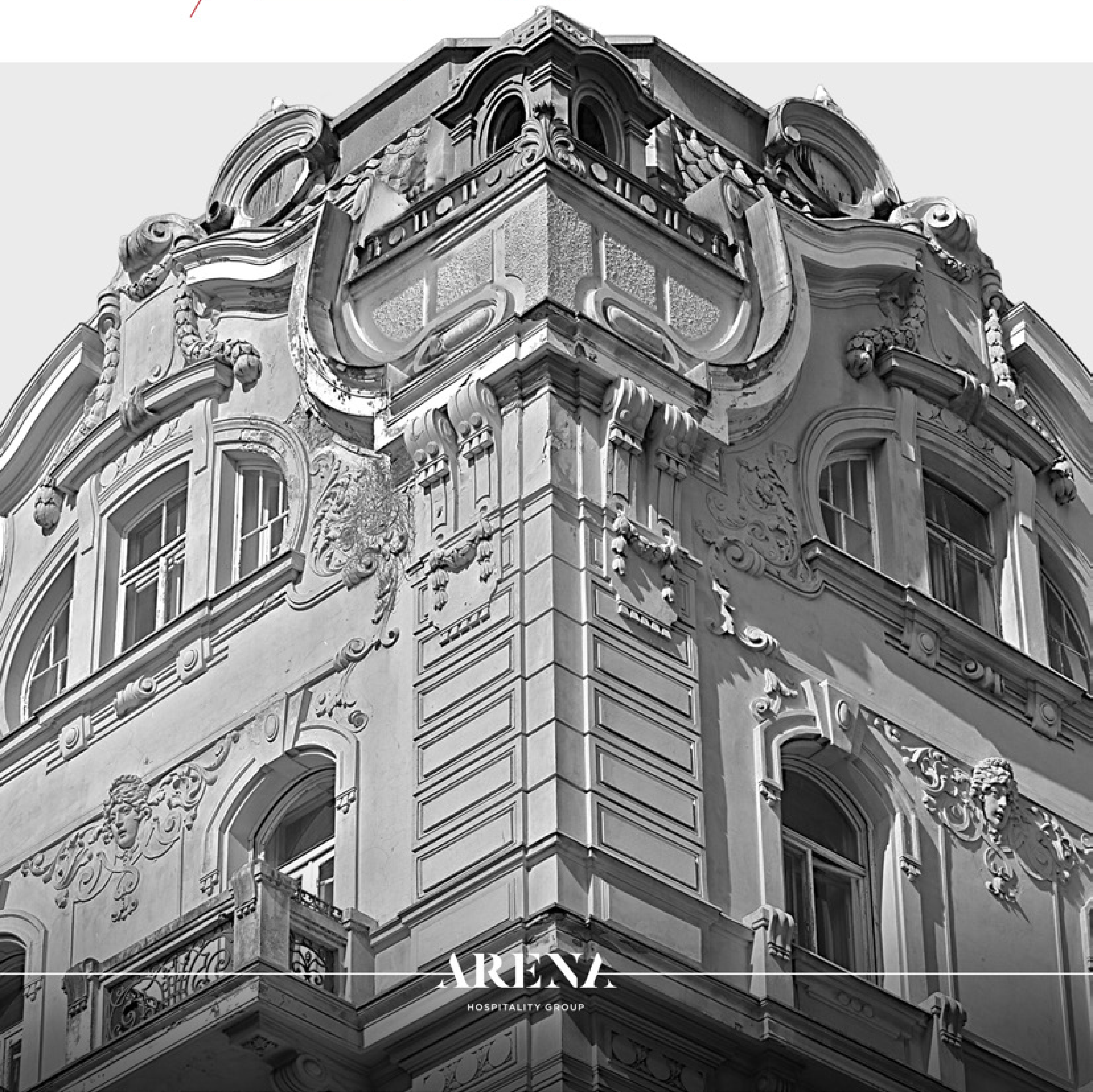
ANNUAL REPORT 2020

ARENA HOSPITALITY GROUP



ARENA

HOSPITALITY GROUP

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Park Plaza Wallstreet Berlin Mitte

Who we are

We are an international, dynamic hospitality company which owns, co-owns, leases, operates and develops full-service upscale, upper upscale and lifestyle hotels, self-catering holiday apartment complexes and campsites in Croatia, Germany, Hungary and Serbia. In addition to operating and developing our own brands, Arena Hotels & Apartments® and Arena Campsites®, through our majority shareholder PPHE Hotel Group Limited (PPHE Hotel Group) we have the exclusive right to operate and develop the international Park Plaza® brand in 18 countries in the Central and Eastern European region (the 'CEE region') and to manage art'otel branded properties, allowing us to further grow our presence.

What we do

Since our transformation at the end of 2016 from a Croatian domestic and locally focussed company to an international dynamic hospitality group, our primary objectives have become to further grow our profile in the upscale, upper upscale and lifestyle market segments in the CEE region, whilst striving to create and realise shareholder value. Our brand portfolio consisting of Park Plaza®, art'otel®, Arena Hotels & Apartments® and Arena Campsites®, across the CEE region, provides us with excellent growth opportunities.

How we do it

Our portfolio includes 27 owned, co-owned, leased and managed properties in operation with over 10,000 units located in select resort destinations in Istria, Croatia and major cities in the CEE region such as Belgrade, Berlin, Cologne, Nuremberg and Budapest. Our revenue is generated from different market segments which is made up of predominantly holidaymakers in Croatia as well as a diversified business mix in Germany, Hungary and Serbia where our portfolio caters for both business and leisure travellers, as well as conference and trade fair delegates.

Key Higlights of the Group

Total Revenue (HRK)	EBITDA (HRK)	EBITDAR (HRK)
238.3M	(18.3)M	(11.9)M
Loss before tax (HRK)[1]	Occupancy[2]	REVPAR (HRK)
(232.3)M	25.4%	136.4

Average Daily Rate (HRK)

536.1

1. Also see Chief Financial Officer's Statement on pages 34.
2. Occupancy is calculated based on the number of days that each property is open

A challenging year, yet full of milestones

OUR BUSINESS AT A GLANCE

We are an international, dynamic hospitality owner, operator company with a strong asset base and access to multiple brands and a global distribution network through our majority shareholder, PPHE Hotel Group. Our approach means that we fully understand the hospitality industry from both an owner and operator perspective and have the power that international brands bring.

CROATIA

Located in one of Croatia's most prominent tourist regions; Istria, our diverse accommodation offering includes hotels, self-catering holiday apartment complexes as well as campsites, and provides guests with a wide choice of locations in Pula and Medulin. Over the years, Croatia has become a popular leisure destination, showing year-on-year growth in overnight stays. With over 40 years of experience in this market, we have an unrivalled expertise in providing great value accommodation with inspirational service in areas of natural beauty.

GERMANY

Our hotels in Germany are located in major gateway cities, such as Berlin and Cologne, which operate on a year-round basis and have a balanced mix of business and leisure guests. The hotels are located in prime city-centre locations with a high footfall of conference, leisure and business guests.

HUNGARY

Located in Hungary's capital city Budapest, which is a popular tourist destination, art'otel budapest is situated in a prime location overlooking the River Danube and the magnificent premises of the Hungarian Parliament.

SERBIA

Hotel 88 Rooms is located in Takovska Street, close to the business area, with easy access to the Belgrade Fair and cultural area, near the iconic Old town of Belgrade and the Danube riverbank.

STRATEGIC OVERVIEW

Resilience of our business model

> "
> ***Our response to the pandemic in 2020 is a testament to the strong management team and the financial resilience of the Group***
> "
>
> **BORIS IVESHA**
> CHAIRMAN OF THE SUPERVISORY BOARD

Dear Shareholders,

In an unprecedented year, Arena Hospitality Group d.d. ("the Company") and its consolidated subsidiaries ("the Group") delivered a resilient performance. The impact of COVID-19 severely delayed our seasonal opening in Croatia and disrupted operations across all our regions for sustained periods of time, nevertheless the Group was pleased to progress its committed repositioning programmes and extend its longer term pipeline through new acquisitions.

Our response to the pandemic in 2020 is a testament to the strong management team and the financial resilience of the Company. The management team acted swiftly to implement the actions needed in response to lockdowns, including managing cash flow, utilising the available work retention schemes in order to support team members who were unable to work, and taking advantage of the business support schemes that were available. For those properties in operation and re-opening for the season in Croatia, we developed and implemented rigorous new health, hygiene and safety protocols, to allow our properties to operate within the prevailing and frequently changing guidelines and in line with guest expectations.

We continued to lay the foundations for future growth where possible, investing HRK 274.3 million during the year. We completed strategically important redevelopments and refurbishments and secured funding to further drive the repositioning programme of Hotel Brioni Pula, soon to be our flagship property in Istria.

We are pleased to have the continued support of our banks, securing a total of HRK 286.5 million in loans in 2020, which allowed us, amongst other investments, to complete the acquisition of a property in Belgrade and in Pula. We also entered into a long-term lease agreement for a property in Zagreb. These transactions further diversify our portfolio and support our growth strategy.

Dividend

Having brought forward the payment of the first dividend to 2019, the Company has taken the decision not to pay a dividend in relation to 2020. This is due to the ongoing uncertainty and volatility in the current market and the need for the Group to focus on cash preservation as a result. Going forward, the Company's intention is to resume payment of a dividend as soon as is practicable, taking into account the business performance, future investment plans and market environment when considering the payment.

Share buyback and performance incentive scheme

In January 2020 and before the COVID-19 pandemic, the Company completed a share buyback scheme, totalling HRK 16.9 million that started in 2019. The purpose of the share buyback is to be able to offer share options to employees as part of the Company's performance incentive scheme and to attract and retain talent within the business.

As at 31 December 2020 the Company held 45,169 treasury shares, representing 0.9% of the Company's issued share capital.

Our markets

Despite the market conditions experienced in 2020 due to COVID-19, the Supervisory Board has every reason to believe that long-term prospects for leisure market in the Istrian region of Croatia will re-emerge once restrictions are eased. While the mix of business in 2020 was weighted more heavily towards camping, we believe that demand for hotel and apartment accommodation will improve once travel resumes.

In our city centre hotels, again we believe that demand from international and domestic travellers will return when restrictions on travel are eased, and when conferences and events of national and international interest recommence.

Governance, Supervisory and Management Board changes

The Group recognises the important role of corporate governance in the ongoing success of the business and remains committed to maintaining high standards.

In March 2020, we were pleased to welcome a fourth member to the Management Board, Mr Edmond ("Edi") Pinto, as Chief Operating Officer. Mr Pinto has rich experience in the hotel industry with extensive knowledge in establishing cooperations with large businesses and organisational bodies, and fostering community ties at the municipal level. He joined Arena following a spell as a resort consultant and owner representative, managing all required opening procedures for a new holiday resort. He started his hospitality career as General Manager in hotel operations, working for "Isrotel", a leading hotel chain in Israel for more than 20 years. Since joining the Company, Mr Pinto has been instrumental in leading the Group's operational response to the COVID-19 pandemic, making the necessary decisions to ensure the continuity of business in difficult circumstances, as well as liaising with team members and managing their expectations throughout the year.

From 1 January 2021, we are also pleased to welcome Mr Goran Nikolić, as the representative of employees in the Supervisory Board of the Company, following the decision by the Workers Council of the Company to change the employees' representative on the Supervisory Board of the Company. Mr Nikolić has been working for Arena for 22 years within the Company's IT support unit.

Our colleagues

Our priority is always to support the health and safety of our colleagues and this was more important than ever during the pandemic. Our intention is to retain as many employees as we can throughout the difficult trading conditions and we have utilised all job retention schemes available. I would like to take this opportunity to extend my sincere thanks and respect to all our team members past, and present, for their support and commitment during their time with our Group.

Responsible business

Our sustainable business strategy is designed to create a long-term value to all our stakeholders and is focused on ensuring that we operate in a manner that positively impacts our people, places and planet in a positive way.

Our environmental and social efforts remained unchanged during the year. In light of the pandemic, our community based activities focused on providing support where there was immediate and critical need. This included: providing resources to support local communities such as preparing packed lunches for hospital workers at the Pula General Hospital; donating LCD TVs for hospital patients; providing professional housekeeping team members to support cleaning and hygiene efforts in local hospitals to limit the spread of the virus; and purchasing much needed medical equipment. We also continued to support our long-standing community initiatives in Germany.

Summary and looking ahead

Last year was truly a difficult time for all. Our performance and ability to manage the business throughout the constant changes in restrictions reflects the resilience of Arena and the commitment of our colleagues. The hospitality industry has demonstrated its ability to bounce back from adversity before and continues to have long-term growth prospects. As nations roll out COVID-19 vaccines, we expect the market to make a phased recovery, and that our strategy to invest into high quality assets will deliver value to our stakeholders.

BORIS IVESHA
Chairman of the Supervisory Board

OUR BRANDS

Trusted, recognised brands with real power

We are confident in the power that trusted and recognised brands offer, delivered through a bespoke approach. Our four core brands, Park Plaza®, art'otel®, Arena Hotels & Apartments®, and Arena Campsites® are mutually complementary, vibrant, unique and continually evolving.

Park Plaza Histria Pula

art'otel

art'otel is a contemporary collection of upper upscale lifestyle hotels that fuse exceptional architectural style with art-inspired interiors. Located in cosmopolitan centres across Europe, each hotel displays a collection of original works designed or acquired specifically for each art'otel®, with each property offering a unique art gallery. art'otel® has created a niche for itself in the hotel world, differentiating it from traditional hotels.

artotels.com

644

UNITS

PARK PLAZA

Park Plaza is an upper upscale contemporary hotel brand featuring individually designed hotels in vibrant city centre locations and select resort destinations. The Park Plaza brand is renowned for creating memorable moments through its inspiring service, stylish guest rooms and versatile meeting facilities which are perfectly complemented by award-winning restaurants and bars.

PPHE Hotel Group Limited is an international hospitality real estate company. It has an exclusive and perpetual licence from the Radisson Hotel Group, one of the world's largest hotel groups, to develop and operate Park Plaza® branded hotels and resorts in Europe, the Middle East and Africa.

radissonhotels.com/en-us/brand/park-plaza

1,841

UNITS

ARENA HOTELS & APARTMENTS®

Arena Hotels & Apartments is a collection of hotels and self-catering apartment complexes offering relaxed and comfortable accommodation within beachfront locations across the historic settings of Pula and Medulin in Istria, Croatia. Arena Hotels & Apartments features contemporary and warm design/interiors accompanied by a welcoming and friendly service offering a holiday full of opportunities for exploration and relaxation complemented by food and drink offering with a touch of local flavor. Arena Hotels & Apartments is your destination host and guide, a home away from home catering for families, couples and friends.

arenahotels.com

1,493*

UNITS

*including 88 Rooms Hotel in Belgrade

ARENA CAMPSITES®

Arena Campsites are located in exclusive beachfront sites across the southern coast of Istria, Croatia. Situated within close proximity of the historic towns of Pula and Medulin, each campsite provides a distinctive offering and relaxed environment from which guests can experience Istria's areas of natural beauty and enjoy outdoor activities from April to October. In 2018 Arena Campsite's portfolio was enriched with Croatia's first all-glamping site, a luxury glamping campsite, Arena One 99 Glamping. In 2019 the Company completed the first phase of the repositioning of the Arena Kažela campsite, with phase two completed in 2020 leading to the launch of Arena Grand Kažela.

arenacampsites.com
arenaglamping.com

5,779

UNITS

STRATEGIC OVERVIEW

Continuation of strategic investments

> *"New health and safety and hygiene measures were introduced across the business."*
>
> REUEL ('RELI') SLONIM
> PRESIDENT OF THE MANAGEMENT BOARD

Welcome,

The Group started 2020 with a clear investment plan, property relaunches and new hotels in Zagreb and Belgrade added to its pipeline, along with a strong existing asset-base on which to build on its performance of 2019.

The unprecedented impact of the COVID-19 outbreak on the hospitality industry has been well-reported, and Arena's operational performance in 2020 shows no exception to the adverse market-wide conditions.

Although the Group experienced an extremely challenging year in 2020 on an operational level, considerable progress was made with our investment plans.

2020 in review

Croatia

The first two months of 2020 were promising, with performance in line with management expectations, and bookings building positively for the mid and peak seasons. Bookings however soon fell away with the outset of travel restrictions in March as governments responded to the threats posed by the pandemic. This resulted in our Easter season effectively being closed to business in Croatia.

As travel and social restrictions were eased toward the second half of May, the Company started to reopen its Croatian properties in line with World Health Organisation, industry and local health and safety guidelines. Capacity at our properties was restricted to reflect the slow return of demand, as well as a safety measure to provide customers with additional space as they moved around our properties.

Bookings started to rebuild in June and July. However, the re-introduction of new travel restrictions into Croatia in late summer from key feeder countries meant that our normal peak month of August, and the remaining months of the year were severely affected. As a result, some campsites remained open longer into the late shoulder months.

Germany and Hungary

Operations in Germany and Hungary came to a near stop from March into May. Although most of our hotels continued to operate, capacity was significantly reduced reflecting the lack of demand from both domestic and international guests. When restrictions were eased, trading in Germany remained subdued over the summer months into the autumn, whilst Budapest continued to be affected by a lack of flights into the City due to a ban on leisure travel.

Financial performance

Reported revenue for the year decreased 69.4% to HRK 238.3 million (2019: HRK 778.1 million). Reported EBITDA Loss was HRK (18.3) million (2019: profit of HRK 229.5 million). Accommodation revenue experienced a decrease of 69.8% to HRK 192.4 million (2019: HRK: 637.7 million) as a result of occupancy which reduced to 25.4% (2019: 55.1%).

It is worth noting that the business mix was substantially different this year. Campsites, which typically have the lowest average daily rate but highest margin of our accommodation offering, contributed proportionately more to the results which had a positive effect on profitability. The demand for campsite accommodation was in part due to the investments completed in the last few years, combined with the perception that they offer lower COVID-19 transmission risk. As a result, campsites contributed just shy of 50.0% to our total revenues in Croatia compared to roughly 30.0% last year, and this change in business mix contributed to a reduction in the average daily rate of 11.6% to HRK 536.1 (2019: HRK 606.2). Together this translated into a RevPAR of HRK 136.4 (2019: HRK 334.1). But due to higher comparative conversion of campsites, this had a positive impact on our profitability. It is extremely important to outline that operationally Croatia managed to post a positive EBITDA result of HRK 3.1 million which is a great achievement given the circumstances during the year.

In order to preserve cash flow and the Group's long-term growth prospects, strong decisive measures were implemented across the Group, including reducing payroll, non-renewal of fixed-term contracts, halting of contract labour and shortening of working hours. The Group postponed rental payments from March onwards and is renegotiating acceptable deferral terms for rent.

The Group utilised any appropriate COVID-19 related government grants in the territories in which it operates amounting to a total of HRK 48.9 million in the year. Where it could, the Group also adopted, and continues to use where they remain available, government supported furlough schemes, employer tax relief and reduced working hours' programmes.

Strategy and investment programme

Despite the ongoing challenges, we are pleased to report that the Group continued to pursue its strategy to

- optimise the value of its assets;
- consistently deliver the refreshed intended guest experiences across our properties; and
- expand the business through the Central Eastern European ("CEE") region, while maintaining and increasing the Company's profile in the upscale, upper upscale and lifestyle market segments.

During the year the Group secured a total of HRK 286.5 million financing to support its investment and acquisition programme. The funds raised are a testament to the strategy, the strength and resilience of its business, as well as the support of its lending partners.

> **HRK 44.9 MILLION**
>
> acquisition of Hotel 88 Rooms, Belgrade, Serbia, for a total consideration of HRK 44.9 million.

Investments and acquisitions

Investments of strategic importance that were already underway at the start of the year were completed. The Group invested a total of HRK 274.3 million (2019: HRK 233.2 million) in upgrading campsites, self-catering holiday apartment complexes and room, public areas and facilities of certain hotels as well as acquisitions.

Arena Grand Kažela Campsite Medulin

This included:

- Arena Grand Kažela Medulin Campsite: completion of our phase two investment, included the installation of 45 new mobile homes, refurbishment of an existing bar, the addition of a new sanitary block and the refurbishment of four existing sanitary blocks;
- Arena Verudela Beach Resort Pula: the refurbishment of 146 apartments, infrastructure works and the refurbishment of the Lighthouse Restaurant;
- Park Plaza Histria Pula: the soft refurbishment of all the rooms and the refurbishment of the Yacht Bar and Restaurant;
- Hotel Brioni Pula: the completion of phase one of constructions works; and
- Acquisition of hotel Riviera Pula and 88 Rooms Belgrade.

In early December 2020, the Company secured approximately HRK 180.0 million via a loan agreement as part of the HRK 260.0 million repositioning and redevelopment of Hotel Brioni, Pula. Expected to reopen in readiness for the 2021 summer season, our ambition is to restore the property to its former standing as one of the premier upper upscale hotels on the Adriatic Coast. Once complete, Hotel Brioni will offer 227 premium rooms over seven floors with three indoor and outdoor pools, an extensive wellness centre with saunas and relaxation rooms, a gym, kids' playground, several restaurants and bars and meeting and event facilities.

Acquisitions and development

In order to extend its presence in Central Eastern Europe, Arena entered into a 45-year lease agreement for the development and operation of a 115 rooms hotel in Zagreb, Croatia.

This was followed before the year end by the acquisition of Hotel 88 Rooms, Belgrade, Serbia, for a total consideration of HRK 44.9 million. In April 2020, the Company settled with the Republic of Croatia the purchase and ownership status of the Hotel Riviera, Pula for HRK 36.5 million. The acquisition will enable the Company to reposition the historic property into a premium, branded 80 rooms hotel.

Hotel 88 Rooms Belgrade

> *It is extremely important to outline that operationally Croatia managed to post a positive EBITDA result of HRK 3.1 million which is a great achievement given the circumstances during the year.*

Our people

Our main priority is always to support the physical and mental health and safety of our team members. As a Company, we aim to create an inclusive and open working environment, supporting our team members to feel motivated and empowered. More than ever in 2020, it was of paramount importance that our people felt valued and were kept informed of changes.

To do this, the Management Board kept in regular contact with team members and delivered presentations and Q&A sessions on the position of the Company, the safeguarding measures taken and business recovery and reopening plans. For team members who were not able to continue to work on site, additional training was provided along with PPE equipment so that work could continue safely.

The significantly lower consumer demand, enforced property closures and reduced capacity had a direct impact on the team members across the business, requiring us all to adapt to new working practices while facing a tough and uncertain market landscape.

As stated earlier, we utilised, and continue to access, job retention and support schemes where they remain available. While we have tried to preserve as many jobs as possible, the prolonged adverse market conditions required us to reduce our payroll and not prolonging some part time employment contracts across the Group.

On behalf of the Management Board, I would like to extend my thanks to all our team members, both past and present for their unfailing commitment and professionalism during these extremely challenging times.

Delivering exceptional experiences safely

Our purpose as a business is to create valuable memories for our guests in vibrant destinations. We aim to delight our guests every day, through engaging service and quality products in inviting places.

The health and safety of our guests and team members has always been our number one priority. However, during 2020, we introduced many new protocols to help prevent the risks associated with COVID-19. We also need to ensure that our guests embraced our guidance and adhered to advice to ensure their own safety.

New health and safety and hygiene measures were introduced across the business. On reopening our assets, we regularly updated our operating procedures, training programmes, social distancing protocols and increased the frequency and rigour of our cleaning services. Guests were also provided with clear safety guidance on arrival, along with readily available hand and equipment sanitising products, as well as clearly displayed protocols and reminders throughout our properties.

The introduction of new services intended to minimise physical contact were also accelerated. This included contact free electronic payments, online check-ins, and online food and beverage orderings. Subsidised COVID-19 testing kits were, and still are, available to our guests and any relevant pandemic information is communicated through the #weareinthistogether section of our website.

Current trading and outlook

The current second wave of COVID-19 restrictions is coinciding with our low season in Croatia, a time when we focus on investing in and upgrading assets to prepare them for the upcoming summer season. As expected, trading in Hungary and Germany remains subdued due to the latest lockdowns in these markets.

In the meantime, we are continuing with our investment programme totalling approximately HRK 350.0 million. Hotel Brioni Pula is due to complete during 2021, as is a light refurbishment our assets in Belgrade and Budapest. A complete refurbishment and repositioning of Hotel Riviera in Pula and of our hotel in Zagreb are expected to commence in 2021 and 2022, respectively.

Whilst we cannot be absolutely sure how long the current lockdown restrictions across Europe will last, at present we are preparing for the mid-season to commence in Q2 for Croatia, and anticipate a stronger summer period than last year, albeit still not at pre-pandemic levels. To ensure we capitalise on demand opportunities as and when they arise, our commercial teams have initiated several commercial launch initiative. New bookings for the summer season are being generated albeit that we expect more last minute pickup than usual once consumers have more visibility on travel options.

Our cash position remains strong, totalling HRK 425.6 million as at 31 December 2020. Our financial modelling has been tested to ensure that we have sufficient funds and continue to access to job retention schemes to withstand the prolonged uncertainty in the hospitality market into 2021, and until trading conditions stabilise.

R. Slonim

REUEL ('RELI') SLONIM
President of the Management Board

STRATEGIC OVERVIEW

The Group's Capital Investments in 2020

HRK 274.3 MILLION

The Group continued with its strategically important investments and acquisitions throughout 2020, by deploying a further HRK 274.3 million, in addition to the HRK 233.2 million invested in 2019

In 2020, the Group invested a total of HRK 274.3 million in upgrading campsites, self-catering holiday apartment complexes and rooms, public areas and facilities of certain hotels, as well as to purchase new properties.

The Group continued and completed the second phase of the investment in Arena Grand Kažela campsite. By investing another HRK 39.6 million Arena Grand Kažela was launched as an upper upscale campsite offering 209 premium mobile homes, 194 premium and luxury pitches, 1,008 regular pitches, a new reception area, two swimming pools which include an activity and a relaxation area, an Illy coffee shop, a new flagship restaurant along with animation content and facilities for children. The total investment in Arena Grand Kažela campsite spread between 2018 and 2020 amounted to HRK 219.0 million.

The repositioning of the Group's second (out of four) self-catering apartment complex Arena Verudela Beach Pula was completed where a total of 146 units were refurbished. The total investment amounted to HRK 61.8 million.

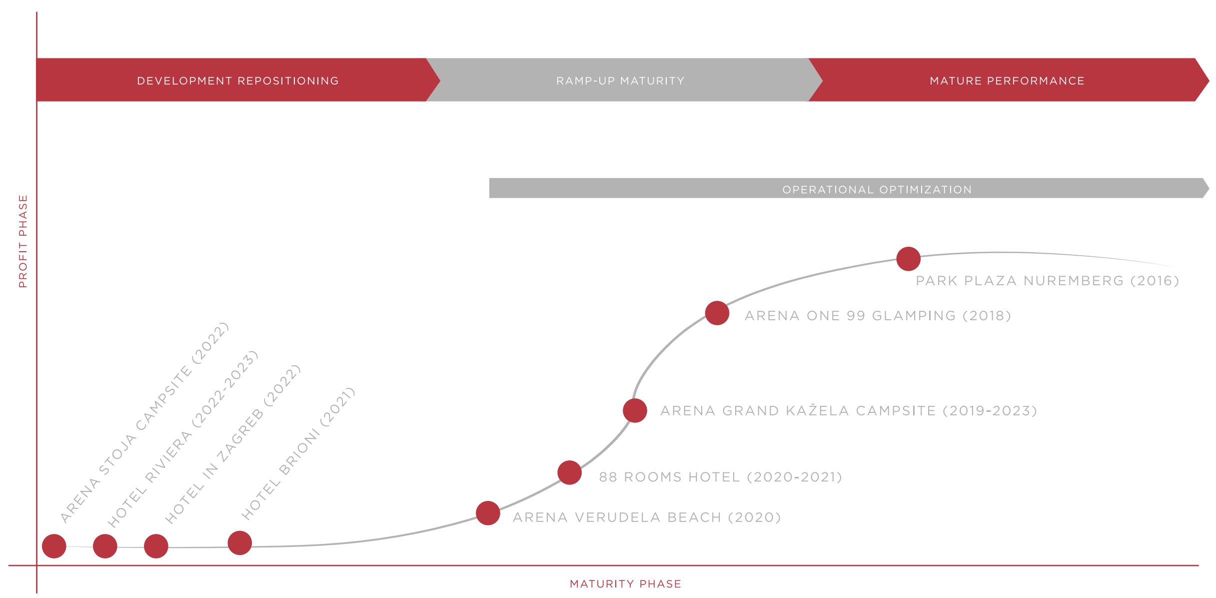
Throughout 2020 phase one of the repositioning and redevelopment of Hotel Brioni Pula was completed totalling HRK 69.8 million. Phase two is currently underway and the opening of the repositioned hotel is expected to take place ahead of the 2021 summer season. The hotel, which was built in the early 1970's, was one of the most prominent hotels in former Yugoslavia and many well-known personalities (including politicians, artists and actors) resided at the hotel. This iconic and landmark hotel, which occupies a spectacular location on a cliff providing wide views of the Adriatic and Brijuni islands, will be repositioned as a premium upper upscale hotel with 227 rooms building upon the hotel's status and reputation, with the ambition for it to become the best in class hotel in Pula and the surrounding area. The hotel has seven floors and will offer an indoor pool, an outdoor infinity pool and an activity pool, an extensive wellness centre with saunas and relaxation rooms, a gym, kids playground, several restaurants and bars and meeting and event facilities.

The Company settled and acquired Hotel Riviera, in Pula, from the Republic of Croatia for an amount of HRK 36.5 million. The purchase concludes the ownership status of this historic heritage hotel. This important milestone enables the Company to commence with the plans to reposition this property into a premium, branded, 80 rooms hotel and give back to it the status that this asset deserves in due course.

The Group successfully closed the acquisition of hotel 88 Rooms in Belgrade, the capital of Serbia, for a total amount of HRK 44.9 million. The contemporary hotel is minutes away from the historic old town. It offers 88 rooms and suites, a restaurant, bar and conference room and fitness facilities. The acquisition of hotel 88 Rooms is yet another milestone of Arena Hospitality Group's pursuit of its strategy to further expand its business through the CEE region. This acquisition further allows the Group to increase its operations across cities in Europe aiming at maintaining and increasing its profile in the upscale, upper upscale and lifestyle market segments in the CEE region, whilst striving to create and realise shareholder value.

Other investments during the year included the refurbishment of the Lighthouse restaurant, soft refurbishment of all the rooms and public spaces in Park Plaza Histria Pula and the refurbishment of the Yacht Bar & Restaurant.

Redevelopment and positioning of our portfolio



Hotel Brioni Pula

STRATEGIC OVERVIEW

The Group's Capital Investments Plan

HRK 130.0 MILLION

HRK 130M investment in an upper scale hotel in Zagreb

HRK 260.0 MILLION

HRK 260M investment in hotel Brioni Pula

The Group expects to complete the repositioning of Hotel Brioni Pula, which started at the beginning of 2020 in time for the 2021 summer season. The hotel, which was built in early 1970', was the most prominent hotel in former Yugoslavia and many well-known personalities (politicians, artist, actors. etc) stayed at the hotel. Hotel Brioni will be repositioned into a luxury upscale hotel with 227 rooms and will build upon the hotel's iconic building status and reputation, with the ambition for it to become the most prestigious hotel in Pula and the surrounding area. The hotel, which has seven floors, will include an indoor pool, an activity and an infinity outdoor pools, wellness centre with saunas and relaxation rooms, a gym, kids playground, grill and snack bars, a restaurant, meeting and conferencing facilities. The investment will total approximately HRK 260.0 million.

Development of a contemporary branded hotel in Zagreb, Croatia is expected to start by mid 2021. The development involves the conversion of an iconic building in a prime location in the historic heart of the city into a hotel. Once opened, this 115 room hotel will include a destination restaurant and bar, wellness and spa facilities, fitness centre, event space and parking. The investment is estimated at HRK 130.0 million and completion is expected during 2022.

art'otel budapest and our new hotel in Belgrade will undergo a light refurbishment of public spaces and rooms. These refurbishments should

New Zagreb hotel

complete during the year and will cost approximately HRK 25.0 million.

The investments above are in line with the Group's previously announced plans and fall within the strategic investment plan of over HRK half a billion, which will represent an important pillar of growth of the Group in the forthcoming period.

Beyond this, the Group has plans to continue overhauling its portfolio, including the refurbishment and repositioning of Hotel Riviera Pula, campsite Stoja Pula, amongst other, and is considering further investments across its portfolio overall. In parallel, it will continue to identify and review potential expansion opportunities in Croatia and the CEE region.

"

Strengthening fundamentals for further growth

"

New Zagreb hotel

GROUP

FINANCIAL KPIs

	Definition	Further information
TOTAL REVENUE (HRK MILLION) 2018 757.7 2019 778.1 2020 238.3	Total revenue includes all operating revenue generated by the Group's owned and leased hotels, management fees.	Also see Member of the Management Board and Chief Financial Officer's statement page 34.
EBITDA (HRK MILLION) 2018 214.7 2019 229.5 2020 (18.3)	Earnings before interest, tax, depreciation and amortisation	Also see Member of the Management Board and Chief Financial Officer's statement page 34.
PROFIT BEFORE TAX (HRK MILLION) 2018 113.8 2019 108.7 2020 (232.3)	Profit before tax	Also see Member of the Management Board and Chief Financial Officer's statement page 34.
EARNINGS PER SHARE (HRK) 2018 17.3 2019 29.1 2020 (44.7)	Earnings for the year, divided by the weighted average number of ordinary shares outstanding during the year.	Also see Member of the Management Board and Chief Financial Officer's statement page 34.

GROUP

OPERATING KPIs

	Definition	Further information
OCCUPANCY (%) 2018 54.0 2019 55.1 2020 25.4	Total rooms occupied divided by the available rooms. Occupancy is calculated based on the number of days that each property is open.	Also see Member of the Management Board and Chief Financial Officer's statement page 34.
AVERAGE DAILY RATE (HRK) 2018 576.2 2019 606.2 2020 536.1	The average daily rate per paid occupied room or accommodation unit.	Also see Member of the Management Board and Chief Financial Officer's statement page 34.
REVPAR (HRK) 2018 311.3 2019 334.1 2020 136.4	Revenue per available room or accommodation unit; total room or accommodation revenue divided by the number of available rooms or units.	Also see Member of the Management Board and Chief Financial Officer's statement page 34.

COMPANY

FINANCIAL KPIs

	Definition	Further information
TOTAL REVENUE (HRK MILLION) 2018 513.7 2019 527.9 2020 167.7	Total revenue includes all generated operating revenue	Also see Company income statement page 78.
EBITDA (HRK MILLION) 2018 148.9 2019 143.6 2020 (2.4)	Earnings before interest, tax, depreciation and amortisation.	Also see Company income statement page 78.
PROFIT BEFORE TAX (HRK MILLION) 2018 81.4 2019 78.1 2020 (108.3)	Profit before tax	Also see Member of the Management Board and Chief Financial Officer's statement page 34 and Company income statement page 78.

COMPANY

OPERATING KPIs

	Definition	Further information
OCCUPANCY (%) 2018 48.6 2019 49.8 2020 25.4	Total rooms occupied divided by the available rooms. Occupancy is calculated based on the number of days that each property is open.	Also see Operating review page 38-41.
AVERAGE DAILY RATE (HRK) 2018 521.2 2019 546.6 2020 486.4	The average daily rate per paid occupied room or accommodation unit.	Also see Operating review page 38-41.
REVPAR (HRK) 2018 253.4 2019 272.3 2020 123.7	Revenue per available room or accommodation unit; total room or accommodation revenue divided by the number of available rooms or units.	Also see Operating review page 38-41.

STRATEGIC OVERVIEW

Principal risks and uncertainties

The COVID-19 pandemic triggered many of the risks and uncertainties listed below and created the circumstances for other risks to surface. The below section outlines the updated principal risks and uncertainties the Group is facing along with a description of the actions undertake as a response to these risks and the way these were, are or can be mitigated.

RISK AND IMPACT	RISK RESPONSE
MARKET AND MACRO ENVIRONMENT	
Market Dynamics - Significant and prolonged decline in global travel and market demand	
The restricted market conditions during the Covid -19 pandemic and the associated decline in demand over a prolonged period has had a major impact on the hospitality industry as a whole. Revenue generation has been severely impacted with consumer confidence low and corporate budgets significantly reduced. A failure to adapt to changing guest expectations in respect of health & safety, technology, sustainability and service could threaten our ability to recover from the COVID-19 pandemic and grow market share.	The Group established various controls and mitigating principles with the aim of reducing such risk. Consistent brand standards are applied across all hotels and close collaboration with both PPHE and Radisson Hotel Group is ongoing at all times. Moreover, close monitoring and analytics of customer feedback is pursued to identify issues and improve operations constantly. As a response to COVID-19, the Group (i) introduced COVID-19 Health & Safety standards, (ii) achieved SGS accreditation for passing the Cleaning and Disinfection Pledge Assessment in all of our Park Plaza and art'otel branded properties, (iii) implemented WTTC Safe Travel protocols in all properties, (iv) accelerated roll-out of technology improvements to introduce a contactless guest experience, (v) targeted promotional activity and an tailored pricing approach, (vi) adapted the service offering in line with governmental guidance.
Adverse economic environment	
COVID-19 has increased macroeconomic volatility and the threat of a deeper and longer lasting economic downturn for the regions in which we operate. Combined with the Market Dynamics risk above, a prolonged economic downturn impacts our ability to protect revenue and profitability.	The Group performs financial stress testing, undertook profit protection plans (with operational impact assessed) and budgetary control and frequent forecasting across all regions and property type to ensure it holds the grip on the business at all times and fine tunes its decision making promptly and appropriately. As a response to COVID-19, the Group (i) took proactive measures to control costs during the period of forced hotel closures and reduce the cost profile of the business for the future, (ii) undertook significant restructuring of the hotel and support teams to reduce the existing payroll cost base, (iii) optimized fixed costs wherever possible and (iv) performed regular open/closed scenario analysis to support informed decisions.

RISK AND IMPACT	RISK RESPONSE
Evolution of the travel industry	
The travel industry has changed considerably in recent years as a result of changes in travel patterns, the emergence of low-cost airlines and online travel agents, new technologies and changes in customer booking behaviour and travel expectations. This trend is anticipated to persist and the travel industry is expected to continue to be impacted by the rise of online travel agents and other dominant forces such as search engines and social media networks. The Group is exposed to risks such as the dominance of one such third party over another, the loss of control over its inventory and/or pricing and challenges to keep up with developments in the market.	The Group invests in areas such as connectivity to third parties, distribution and marketing of its products, e-commerce and technology. The Group further mitigates this risk by working closely with PPHE Hotel Group, ensuring that global trends are identified and acted upon in a concerted manner, whilst benefiting from the scale, negotiating power, knowledge and skills that such a partnership brings, including the global partnership with Radisson Hotel Group. Executives and managers regularly attend seminars, workshops and trainings to ensure that their knowledge is kept up to date.
Hotel industry risks	
The Group's operations and their results are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as global economic uncertainties, political instabilities and the increase in acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.	Although management continually seeks to identify risks at the earliest opportunity, many of these risks are beyond the control of the Group. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises and takes steps to minimise these exposures to the greatest extent possible.
Seasonality and adverse weather conditions during the high season	
The Group's business in Croatia is highly seasonal; the majority of guest visits occur from June to September. A high degree of seasonality in revenues in the Croatian market increases the impact of certain weather events on the Group's operating results. The ability to attract visitors to the Group's Croatian properties, particularly the campsites and self-catering holiday apartment complexes, is influenced by weather conditions and the number of warm and dry weather days during the summer season.	The German, Hungarian and Serbian hotels do not experience such seasonality. New development opportunities in city centre locations within the CEE region are also expected not to experience such seasonality and will operate all year round. Moreover, the Group is consistently focussed on extending its activities in the shoulder season.

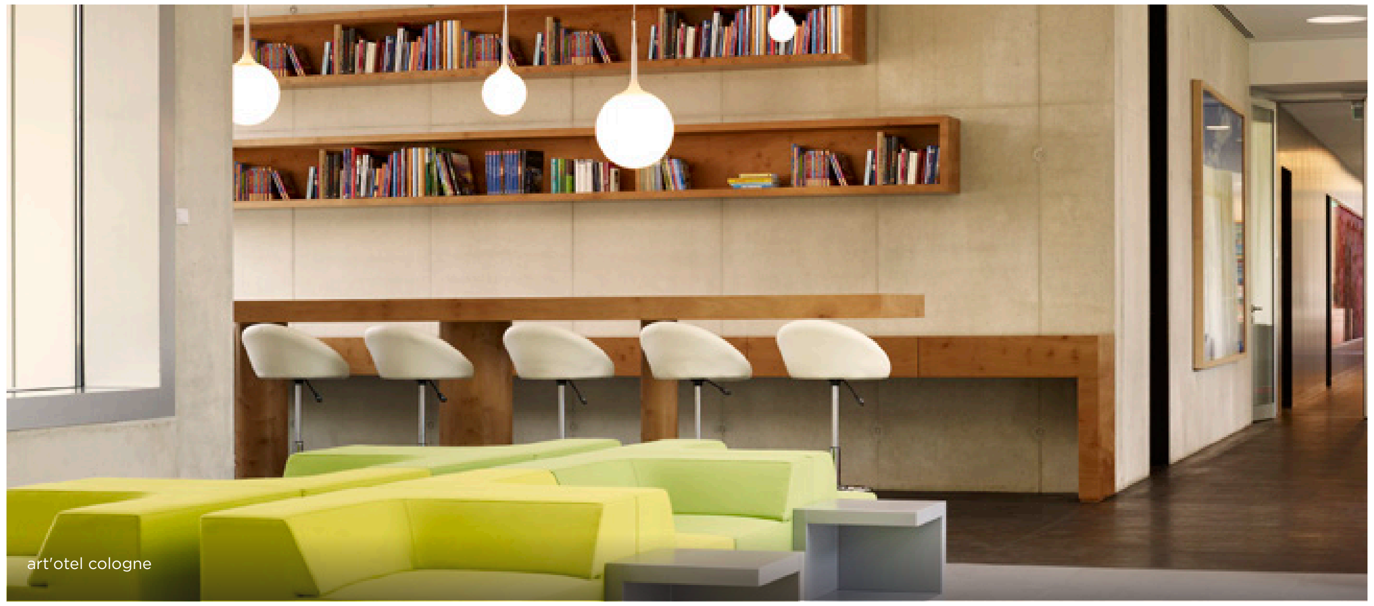
RISK AND IMPACT	RISK RESPONSE
Use of land in campsites and tourist resorts	
In accordance with the provisions of the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process Act from 2010 (the 'TLA), the Company submitted requests to the Republic of Croatia and the relevant municipality for the award of tourist land concessions in relation to land areas in eight campsites and three tourist resorts in Croatia. The TLA failed to produce the desired impact and to resolve the issues of the ownership / use of the tourist land. This in turn caused far reaching consequences in the form of lack of investments into tourist land, reduced international competitiveness of Croatian tourism due to lack of development and reduced income of the state and local municipalities. The Croatian government therefore adopted a new legislation to deal with, inter alia, the so-called tourist land and proprietary relationships between the owner of such land and the owner of the facilities built thereon. In May 2020, the new Non-Appraised Construction Land Act (the "NCLA") replaced the TLA and all initiated requests based on the TLA were suspended. Pursuant to the NCLA, the ownership of the land underneath the facilities in the campsites that were assessed into the share capital of the Company is now also legally recognized as ownership of the Company, while the Republic of Croatia will be the sole owner of the other land in the camps. In respect to the tourist resorts, the ownership of the land underneath the facilities that have been assessed into the share capital of the Company is now also recognized as ownership of the Company, together with the land surrounding such facilities that makes (together with the relevant facilities) the technological and functional unity. Tourist land in the tourist resorts which was not assessed into the share capital of the Company and which serves the standard usage of the resorts shall be owned by a local municipality. In relation to the land in campsites owned by the Republic of Croatia and the land in tourist reports owned by the local municipalities, the Company will ex lege be deemed long-term (50 years) lessee and will conclude the lease agreement with the state / local municipalities once the procedure envisaged by the NCLA will be complete. However, the Government has still not adopted the secondary level regulation that would govern the rent payable by the lessees for such lease nor have the procedures required for the implementation of the Act and actual registration of the ownership over the respective part of land in campsites / tourist resorts been completed. This creates uncertainties in relation to the current and future assets and obligations of the Company.	While the TLA was still applicable, the Company paid 50% of the concession fees in respect of the eight campsites and accrued the remaining 50% until entering into the envisaged concession agreements. As the new NCLA has not yet set the rules for the rent payable based on the lease agreement, the Company kept the same accrual and provisioning model. The provisions are visible in the Group's balance sheet. Although the new primary level legislation was adopted, the actual implementation of ownership registration and determination of the new terms under which the Company will be charged to use of the land in campsites and tourist resorts is still not complete. The Company has started filing the required requests under the NCLA and plans to submit all of them within the prescribed deadline (May 2021).

RISK AND IMPACT	RISK RESPONSE
FUNDING, INVESTMENTS AND DEVELOPMENT	
Funding and liquidity risk	
This risk includes breach of debt covenants, inability to service existing debt and cash restrictions The risk of breaching debt covenants and liquidity concerns increased significantly this year with the sudden loss of revenue brought about by government travel restrictions and temporary hotel closures. The impact of failing to act and contain these threats during the COVID-19 pandemic and beyond would be severe, including an increased risk of cash traps being applied to hotel specific loan.	The Group does regular forward covenant testing with sensitivity and stress modelling and does routine treasury monitoring and reporting to the Board. As a response to COVID-19, the Group took actions to preserve cash and reduce costs, including use of government payroll support schemes across our regions, redundancies, salary reductions and salaries taken as share options. It obtained all necessary debt covenant waivers with lenders and other parties, where necessary it deferred amortisation payment schedules and other liabilities. Moreover, it signed new facilities to support its selective investments that were strategically pursued. Cash is monitored daily.
Acquisitions and New Developments	
Inaccurate assessment of a development opportunity could lead to poor investment decisions and affect the Group's ability to drive growth and long-term value. The Group could also experience delays, unforeseen increase in costs, disputes with contractors or inconsistent quality.The long-term effects of the COVID-19 pandemic include potential increases in material and labour costs, and new working practices impacting the timeline for project delivery.	This risk is currently within the Group's levels of tolerance and aligned with its risk-reward strategy. Through the application of due diligence procedures, the Group takes calculated risk in its pursuit of new opportunities, which is aligned with its strategic agenda of disciplined, yield focused capital deployment to achieve growth and long-term value. Where possible fixed price agreement are signed and senior leadership team oversight and close monitoring and support from our in-house Technical Services team is introduced. As a response to COVID-19, reassessment of developments and decisions taken to pause or delay projects.
Foreign exchange rate fluctuations	
The exchange rates between the functional currency of the Group's subsidiaries operating inside the Eurozone, and the Croatian Kuna (the reporting currency for the purposes of the financial statements) may fluctuate significantly, affecting the Group's financial results. In addition, the Group may incur a currency transaction risk in the event that one of the Group companies enters into a transaction using a different currency from its functional currency.	The Group eliminates currency transaction risk by matching commitments, cash flows and debt in the same currency. After due and careful consideration, the Group decided not to hedge this currency risk
TECHNOLOGY AND INFORMATION SECURITY	
Cyber security	
The Group could be subject to a serious cyber attack resulting in significant disruption to operations and financial loss from falling revenues, cost of recovery and significant fines in the event of a related data breach. The presence of effective technical controls and team member awareness programmes remained essential this year, with corporate and regional teams switching to remote working and an increased threat from email phishing attacks.	The Group established appropriate Email protection and end-point protection and detection controls, Network security systems, Virtual Private Network (VPN) connections for securing remote connections to the corporate network, IT security policies and Incident response plans. As a response to COVID-19, remote working awareness training has been rolled-out and phishing security tests were performed.
Data privacy breach	
The Group could experience a serious data privacy breach which could result in ICO investigation, significant fines in accordance with the GDPR and subsequent reputational damage.	The Group has Information Security and Data Privacy policies, internal awareness communications and training, breach protocols, reporting hotlines for team members and incident response plans in place. It, uses third-party experts for technical support when necessary, New payment solutions shall be introduced that will provide safer guest experience.

RISK AND IMPACT	RISK RESPONSE
TECHNOLOGY AND INFORMATION SECURITY	
Technology disruption	
A prolonged failure in our core technology infrastructure could present a significant threat to the continuation of our business operations, particularly where failures impact hotel management and reservation systems.	A significant project has been delivered in 2020 to reduce the threat to the resilience of our core technology and further investments to make it more robust and enhance security. Project is under way to relocate our core technology infrastructure and data centre.
SAFETY, CONTINUITY AND LABOUR RISKS	
Operational disruption	
The Group could experience disruption to our operations from incidents at our hotels or in the immediate vicinity, for example earthquakes, floods, extreme weather, social unrest, terrorism. It could also be exposed to significant operational disruption from global events such as conflict, environmental disasters or future pandemics. Hotel closures and lockdowns in all of our regions during the COVID-19 pandemic have been an extreme test of our operational resilience and crisis plans. This risk remains active due to the dynamic nature of the pandemic and frequently changing government restrictions across our regions.	The Group has established property lockdown procedures, crisis plans including crisis communications, Business Continuity Plans as well as contingency measures and steps for critical supplies. As a response to COVID-19, the Group implemented (i) cost control measures to reduce impact of closures and reduced capacity, including organisational restructuring, (ii) services adapted to continue operations where possible, (iii) remote working capabilities for corporate and regional teams, including Central Reservations and Customer Support, (iv) close monitoring of key supplier stability and regular communications regarding anticipated demand levels.
Serious Health, Safety and Security Incidents	
The Group could experience significant health and safety, food safety or physical security incidents. A failure to take reasonable steps to prevent such incidents, or a failure to respond appropriately, could impact our reputation, disrupt our operations and result in significant loss of guest, team member and stakeholder confidence.	The Group has regular (i) risk assessments, (ii) security and fire safety procedures, (iii) health & safety audit programmes, (iv) in-house and supplier food safety audit programmes, (v) team member training programmes, (vi) incident reporting and (vii) property crisis plans. As a response to COVID-19, the Group (i) implemented WTTC Safe Travel protocols in all properties, (ii) introduced regular COVID-19 related health & safety audits and SGS accreditation for cleanliness and disinfection for our Park Plaza and art'otel branded properties, (iii) introduced technology for temperature checking within our hotels and corporate offices, (iv) introduced COVID-19 incident protocols and centralised tracking of identified cases, (v) organised mental health and wellbeing trainings and (vi) adapted security measures introduced for closed properties.

RISK AND IMPACT	RISK RESPONSE
Labour related risks	
The Group is subject to the risk of industrial or labour disputes and adverse employee relations, and these disputes and adverse relations could disrupt the Group's business operations and materially adversely affect the Group's business, financial condition and results of operations and have a material adverse impact on the Group's reputation. Although the Group has not had any material industrial or labour disputes in the past, no assurance can be given that there will not be industrial or labour disputes or adverse employee relations in the future that could have a material adverse effect on the Group's operations in a specific property, country or region which in turn could have a material adverse effect on the Group's business, financial condition and results of operations. The Group's ability to support its business operations may be impaired by its ability to employ, train and retain sufficient personnel necessary to meet its requirements. In Croatia, this is true particularly during the high season of June to September and in Germany, this applies mainly to the Group's operations in Berlin. The Group may be unable to maintain an adequate labour force necessary to operate efficiently and to support its growth strategy. The Group has from time-to-time experienced shortages of certain profiles of employees. For example, the Group has experienced difficulties in hiring sufficient employees to team members its hotels in Berlin. During the high season in Croatia, it can be difficult to employ an adequate number of people and employees are frequently recruited across geographic regions to satisfy demand, however, the supply of experienced hotel industry employees and other skilled workers may not be sufficient to meet current or expected demand. The opening of new hotels may put further pressure on demand and the Group's ability to attract and retain sufficient numbers of qualified employees. If the Group is unable to attract and retain employees with the requisite skills and experience, it may be forced to incur additional training expenses. Labour shortages or increased labour costs could impair the Group's ability to execute its business strategy and growth plans. If the Group experiences shortages of sufficient labour in any of its markets this may have an adverse effect on its business, financial condition and results of operations. Moreover, the Group may encounter pressures arising from increasing labour cost which could have an adverse impact on the profitability of the Group.	The Group focuses on its employees as it acknowledges the importance of employees to the success of the business and makes significant efforts to provide a number of extensive training programmes for its employees which are aimed at nurturing and retaining talent, enabling intra-group transfers, and inspiring the workforce, which ultimately serve to improve employee and guest satisfaction scores, which have been growing across the Group's properties year-on-year. This includes access to a wide range of training programmes administered by the PPHE Hotel Group to which the Group's employees have access. The success of the Group's employee initiatives and their overall satisfaction is evident through the Group's high rate of employee retention. The Group intends to continue to create and deliver programmes aimed at further improving employee engagement and satisfaction and pursue further technological initiatives.
Capital required to maintain product standards	
The Group owns and co-owns many of its properties. As is common in owning such properties, this business model requires capital to maintain the high quality level of the products and facilities offered. In addition to maintenance costs and capex, the Group may be exposed to disruptions in revenue if those properties are to be (part) closed for product improvements.	The Group focuses heavily on preventative maintenance across its portfolio and employs engineers and technicians to ensure that its portfolio is maintained to a high standard. In addition, as part of its operating agreements, the Group has capex reserves for each property to invest in medium to large renovations and replacements of technical installations. To minimise short-term revenue displacements due to renovations, the Group develops – prior to undertaking such renovations – detailed renovation planning programmes, which take into account factors such as property closures, phased approaches, seasonality and demand patterns.

RISK AND IMPACT	RISK RESPONSE
SAFETY, CONTINUITY AND LABOUR RISKS	
The Group is reliant on its relationships with the PPHE Hotel Group and Radisson	
The Group relies on its relationships with the PPHE Hotel Group and Radisson. The Group does not own the Park Plaza trademark it uses. Instead the PPHE Hotel Group has granted the Group the exclusive right to operate and develop any new Park Plaza branded property in the CEE Region, including in Croatia, Germany and Hungary. The PPHE Hotel Group has the exclusive right to use, and to grant others to use, the Park Plaza trademark in 56 countries in Europe and the MENA region pursuant to the Territorial Licence Agreement with Radisson. The Group and the PPHE Hotel Group are parties to the Framework Agreement related to the Park Plaza branded hotels, pursuant to which the PPHE Hotel Group provides the Group with term-limited exclusive rights to operate and develop properties in the CEE Region using the Park Plaza brand. The Group and the PPHE Hotel Group are also party to the LSM Agreements. Pursuant to the Framework Agreement, the Group has agreed not to use or operate any hotels under any brand other than the Park Plaza brand, the art'otel brand or any other brand licensed to the Group by the PPHE Hotel Group or developed and owned by the Group (provided, however, that this shall not prevent the Group from operating any unbranded outlets subject to entering into anew Operating Agreement and LSM Agreement in relation to such outlets) unless otherwise agreed with the PPHE Hotel Group. In addition to access to use of the brands, the LSM Agreements also give the Group's Park Plaza and art'otel branded properties access to Radisson reservations, marketing and distribution system as well as the PPHE Hotel Group's central services including employee training support systems. The Group's operational success and ability to execute its growth strategy will depend significantly upon the satisfactory performance of the services provided by the PPHE Hotel Group under the LSM Agreements and the ongoing strength and continuity of the relationship with the PPHE Hotel Group and the indirect relationship with Radisson. The Framework Agreement terminates in 2046 unless terminated earlier. The PPHE Hotel Group is entitled to terminate early in certain limited circumstances including it ceasing to control the Company. The LSM Agreements can only be terminated by the PPHE Hotel Group in very limited circumstances prior to their expiration which coincides with the expiration of the term of the applicable Operating Agreement. In the unlikely event that either the Company's relationship with the PPHE Hotel Group or the relationship between Radisson and the PPHE Hotel Group were to end or be damaged, it could have a highly material adverse effect on the Group's business, financial condition and results of operations.	The Group has become a part of the PPHE Hotel Group strategically and as part of that partnership it has access to and uses various benefits that add value to its business. Although the relationship with the PPHE Hotel Group is important, the Group is independent from its majority shareholder and as such is operating, and can continue to operate without disruptions even in the event that the relationship with PPHE Hotel Group became compromised. Using its own brands and established business processes, the Group can continue its operations by adapting to new circumstances. In that case, the Group would reallocate any resources that would become available in the absence of the LSM agreement to develop and augment its own brand, procure or contract another reservation system, negotiate additional commercial arrangements and increase its own sales and marketing activities.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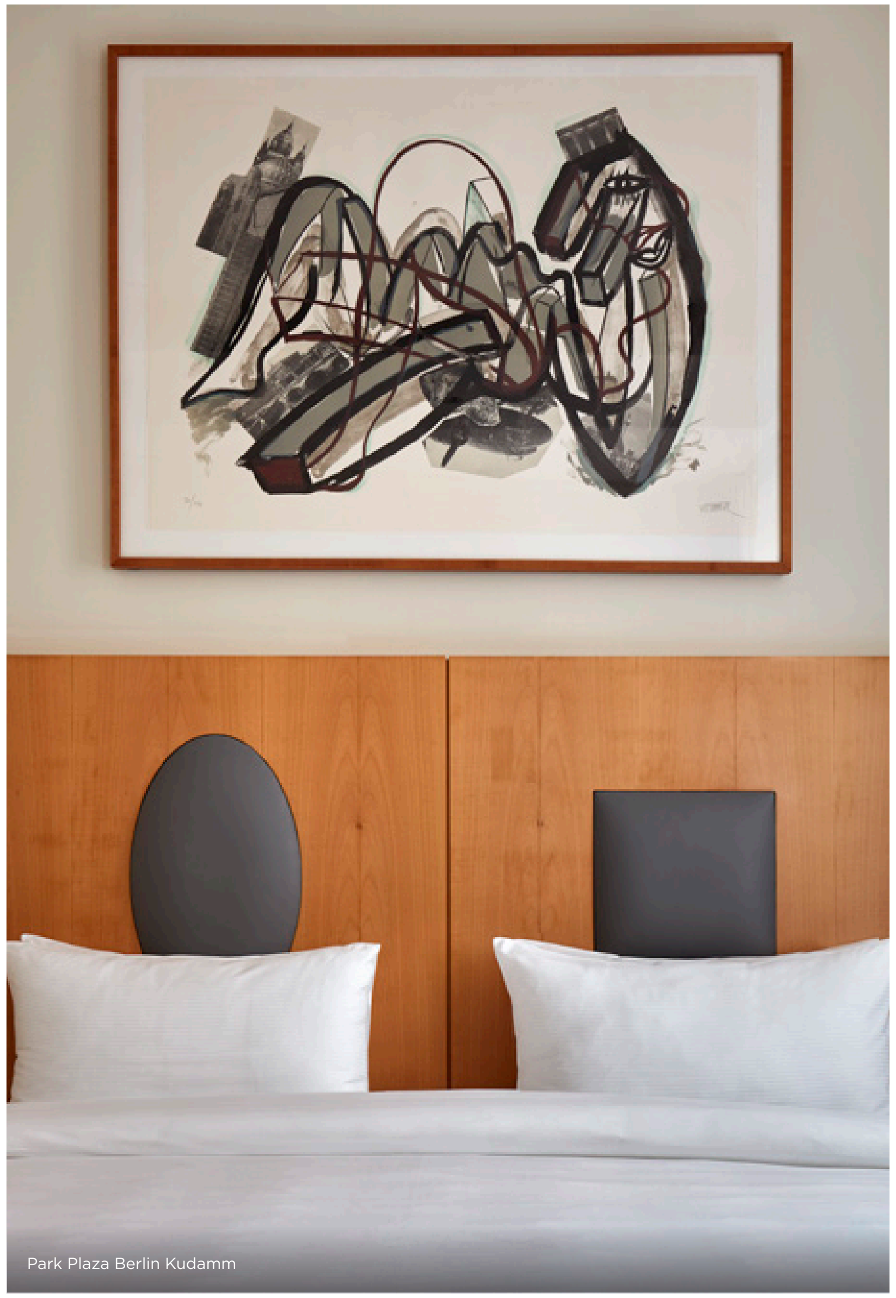
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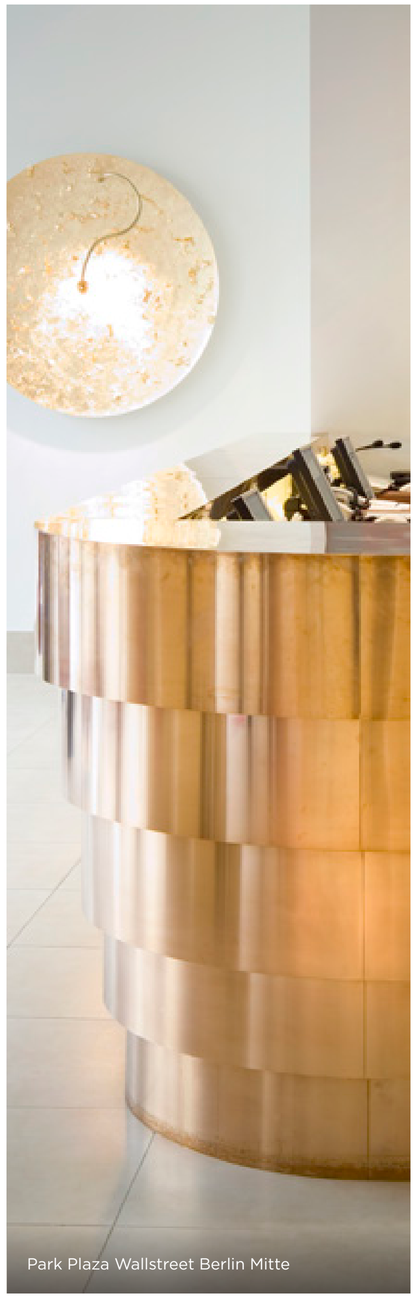
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STRATEGIC OVERVIEW

Focus on liquidity preservation

> *"Since the onset of the pandemic the Group has focussed on preserving its liquidity by further optimising its costs and adapting the business to lower demand."*
>
> **DEVANSH BAKSHI**
> MEMBER OF THE MANAGEMENT BOARD & CHIEF FINANCIAL OFFICER

Welcome

As we entered 2020, the Group was positioned for another successful year of growth. In January and February, the performance across our portfolio was in line with Management's expectations, and the bookings pace was ahead of the same period for the previous year - we were off to a good start. Nevertheless, from March onwards our results were severely impacted by the COVID-19 pandemic, with demand for international travel seriously hindered. This resulted in an unprecedented and unforeseeable drop in business. Nonetheless, even in such a challenging environment, the strong fundamentals of our business enabled us to navigate through the storm, and to adapt and prepare the business for a phased recovery when more normal trading conditions resume.

Liquidity preservation in response to COVID-19

Since the onset of the pandemic the Group has focussed on preserving its liquidity by further optimising its costs and adapting the business to lower demand. This included a significant reduction in payroll through the furlough of employees, the non-renewal of fixed-term employment contracts, halting of contract labour , shortening of working hours and temporary salary cuts of up to 20%.

The Group used the government support available in its countries of operations to mitigate the impact of these challenging times. The start dates, duration and scope of these government schemes varied, however all were available for a period of at least three months. In total, the Group received HRK 48.6 million in direct cash grants.

In Croatia, the Company applied for and utilised employee related measures as well as other measures related to taxes and contributions enacted by the Government. The total amount of such grants received during the period from the Croatian Government amounted to HRK 37.1 million. The employment related measures have been extended into 2021. The Company also used the waiver in payments of concessions granted by the enacted package in the amount of HRK 1.5 million and write-off of liabilities arising from taxes and contributions linked to the decrease in revenue in Croatia during the spring lockdown in the total amount of HRK 3.6 million.

In Germany the Group accessed, and continues to access, the Government's "Kurzarbeit" measures. These measures enable contracted working hours to be reduced and the Government to a great extent compensates employees for the hours not worked, thereby alleviating some pressure on payroll expenses. Other measures included the deferral of taxes (such as income tax and solidarity tax). Hungary introduced the reduced working hours programme and waiver of employment taxes. During the period, grants received amounted to HRK 11.3 million. Whilst support measures in Germany have been extended until the end of 2021, Hungary does not provide at the moment any government support beyond the one granted during 2020. Moreover, the Group is in the process of applying for further state aid measures in Germany which cover 70% of fixed costs and which may not exceed 75% of turnover generated in the months of November and December 2019.

The Group postponed rental payments from March onwards and is currently negotiating acceptable terms with a view to agreeing waivers and rent deferrals in Germany and Hungary. Moreover, it has rescheduled its loan principal repayments coming due between April and September 2020 in an aggregated amount of HRK 6.4 million to the end of 2021 in Germany.

In addition, the Group has a long-standing and supportive group of banks with whom it is in regular dialogue to ensure there is the possibility to take all the necessary actions that are in the best interests of the Group in the current environment. All necessary waivers are in place and the Group complies with all its covenants.

The Group confirms that it will not pay a dividend to shareholders until the end of 2021. This preserves liquidity and complies with Croatian Government requirements for companies that accessed the COVID-19 related support schemes.

The Management Board has considered detailed cash flow projections for the short to medium term with a recovery to 2019 levels conservatively estimated for 2023. This assumes the Group complies with its covenants. Based on this the Management Board has determined that the Group is likely to continue in business for at least 12 months from the date of approval of the consolidated financial statements and has no going concern issues.

Selective investments and targeted financing secured

Despite the challenging year, we selectively prioritized the continuation of certain portfolio investments, which were either completed in 2020 or are scheduled to complete in the first half of 2021. The most significant investment during the year was phase one of the redevelopment and repositioning of Hotel Brioni Pula, at a cost of HRK 69.8 million. The investment continues and is expected to complete for the upcoming 2021 summer season. The total investment in Hotel Brioni will amount to approximately HRK 260.0 million.

Other major investments during the year included (i) completion of the second phase investment in Arena Grand Kažela Medulin Campsite, which amounted to HRK 39.6 million, (ii) completion of the full repositioning of the self-catering apartment resort Arena Verudela Beach Pula, an investment totalling HRK 61.8 million of which HRK 37.7 million invested during 2020, (iii) purchase of hotel Riviera Pula from the Republic of Croatia for a total consideration of HRK 36.5 million and (iv) completion of the acquisition of hotel 88 Rooms in Belgrade, Serbia totalling HRK 44.9 million.

In accordance with the Group's funding strategy, we have secured funding to support our ongoing investments. During 2020 the Group entered into a HRK 180.0 million facility, maturing in 2033, with Erste Bank and Zagrebačka banka from Croatia to fund the repositioning and development of Hotel Brioni. Furthermore, we signed a HRK 75.0 million facility agreement with OTP banka from Croatia, with a maturity of ten years, for the purpose of acquiring and refurbishing hotel Riviera in Pula. Lastly, the Group secured HRK 31.5 million of financing, maturing in 2025, with AIK bank in Serbia for the purpose of acquiring hotel 88 Rooms in Belgrade

Hotel 88 Rooms Belgrade

The Group's ability to successfully secure funding during the pandemic reaffirm the long standing relationship and ongoing support the Group has from its lending partners. It is testament to the Group's strategy, with respect to both ongoing business as well as new investments, which are expected to accelerate the growth going forward.

The investments the Group undertook in Croatia between 2018 and 2020 enabled us to claim and receive a formal approval from the Croatian Ministry of Economy to use tax benefits available for capital investments. Based on our investments in Croatia in 2020, we have secured additional HRK 9.5 million of incentives. We are carrying forward into 2021 HRK 50.8 million of incentives, which remains to be utilised. As we continue to invest, we expect to continue to use these benefits in the coming period.

HRK 274.3 MILLION

HRK 274.3 million in selected investments during the year

CONSOLIDATED KEY PERFORMANCE INDICATORS

	Year ended 31 December 2020	Year ended 31 December 2019 Like for like [1]	Year ended 31 December 2019 Reported	Variance %[2]
Total Revenues (HRK million)	238.3	761.5	778.1	(69.4)
Total accommodation revenue (HRK million)	192.4	624.5	637.7	(69.8)
EBITDAR (HRK million)	(11.9)	240.8	243.3	n/a
EBITDA (HRK million)	(18.3)	227.2	229.5	n/a
Profit/(loss) before tax (HRK million)	(232.3)	107.6	108.8	n/a
Rooms available[3]	1,410,387	1,872,391	1,908,871	(26.1)
Occupancy %[3]	25.4	54.9	55.1	(2,960) [4]
Average daily rate (HRK)[5]	536.1	607.9	606.2	(11.6)
RevPAR (HRK)	136.4	333.5	334.1	(59.2)

1 The like-for-like comparison excludes the contribution of Hotel Brioni's operations in 2019, as this hotel is currently closed and under refurbishment.

2 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare reported twelve months ended 31 December 2020 with reported twelve months ended 31 December 2019. All financial information in this report for accommodation revenue, total revenue, EBITDAR and EBITDA reflects the Group's interest.

3 Rooms available and the occupancy calculation are based on operating days.

4 In Basis Points (BPS)

5 Average daily rate represents total room revenues divided by the total number of paid units occupied by guests

Business performance

The COVID-19 pandemic has taken a toll on global economies, and the hospitality industry is severely impacted. The initial reduction in demand for international and domestic travel in March, resulting in increased cancellations and a slowdown in bookings escalated dramatically. As the year progressed, governments in many countries announced further extraordinary measures to slow the spread of the virus. These included; closure of borders, travel restrictions, the adoption of social distancing policies, bans on large gatherings and events, the closure of restaurants, bars and other businesses, as well as general lockdowns. These measures led to an immediate and significant deterioration in the hospitality market, with a high number of cancellations and no shows, and very few new bookings.

At the end of May lockdowns across Europe started to ease and travel gradually resumed, albeit at significantly lower levels than before the pandemic. In May, Croatia opened up its borders and finally business started to return, intensifying from the end of June to reach its peak in mid-August, at which point several countries including Austria, Italy and Slovenia upgraded Croatia's risk profile as a travel destination. This reversed the positive trends experienced up until that point.

Demand at our properties in Germany was weak due to a lack of leisure travel during the summer months and an almost non-existent corporate business, which generally picks up in September. From November new lockdown measures were introduced.

Consequently, total Group revenues decreased by 69.4% to HRK 238.3 million (2019: HRK 778.1 million). Accommodation revenue dropped by 69.8% to HRK 192.4 million (2019: HRK 637.7 million). Occupancy halved to 25.4% and the average daily rate reduced by 11.6% to HRK 536.1 (2019: HRK 606.2).

The Group posted an EBITDA loss of HRK 18.3 million (2019: profit of HRK 229.5 million).

After tax loss

Consolidated after tax loss was HRK (227.3) million (2019: profit of HRK 149.0 million). Income tax return amounted to HRK 5.0 million (2019: return of HRK 40.2 million). Tax benefits granted by the Ministry of Economy relate to the previous investments the Group has undertaken in Croatia.

Financial position

Long-term assets increased by HRK 242.2 million to HRK 2,591.6 million (2019: HRK 2,349.5 million), mostly as a result of investments coupled with the recognition of the long-term lease signed for the property in the centre of Zagreb, which the Group plans to develop into hotel, and the first time consolidation of hotel 88 Rooms in Belgrade, acquired in December 2020.

HRK 425.6 MILLION

HRK 425.6 million our cash position at year end despite the challenging year

Short-term assets decreased by HRK 294.7 million to HRK 451.2 million (2019: HRK 745.9 million) predominantly driven by the decrease in the Group's cash position. The Group's cash position decreased as a result of the pandemic related lockdowns which limited business activity during the summer months impacting income and fulfilling committed capital investments in Croatia. At 31 December 2020, the cash position stood at HRK 425.6 million.

Long-term liabilities and provisions increased by HRK 158.8 million to HRK 1,330.6 million (2019: HRK 1,171.8 million). The increase is mostly due to the recognition of the long-term lease for the property in Zagreb, and is also due to the net increase in bank loans drawn for the capital investments undertaken during the period, including the purchase of hotel Riviera in Pula and hotel 88 Rooms in Belgrade.

Short-term liabilities remained at a similar level to the prior year and amounted to HRK 180.7 million (2019: HRK 167.1 million).

Earnings and shareholder value

Earnings per share were negative HRK (44.7) per share in 2020. The earnings per share generated in 2018 amounted to HRK 17.3 and HRK 29.1 in 2019. Cumulatively the earnings per share in 2018 and 2019 amounted to HRK 46.4 which offset the loss generated in 2020. We have worked hard (and constantly are) to position the business for further growth and value creation. Our efforts are concentrated on the preservation of shareholder value using various levers, including the liquidity preservation measures along with selective strategic investments across our portfolio, including those in IT systems with a view to reduce direct overhead costs. We believe our efforts will translate into future new value creation as the business resumes to normal activity levels.

Looking ahead

In the year ahead, we remain focused on preserving liquidity and adapting our portfolio and services as uncertainties due to pandemic remain, and the timing of a phased recovery is unclear. However, we will continue to invest in the Group, with a focus on completing selected investments in our portfolio and continuation of our transformational IT investment cycle aimed at modernising our solutions and further optimising our processes, with the aim of creating long-term value for our stakeholders.

DEVANSH BAKSHI

Member of the Management Board and Chief Financial Officer

Park Plaza Histria Pula - Yacht Bar

STRATEGIC OVERVIEW

Operating review: Croatia

The following table sets out the results for the Group's operations in Croatia for the year ended 31 December 2020:

HOTELS, SELF-CATERING HOLIDAY APARTMENT COMPLEXES AND CAMPSITE OPERATIONS				
KEY PERFORMANCE INDICATORS	Year ended 31 December 2020	Year ended 31 December 2019 Like for like[1]	Year ended 31 December 2019 reported	Variance %[3]
Total Revenues (HRK million)	158.7	503.0	519.6	(69.5)
Total accomodation revenue (HRK million)	134.6	419.2	432.5	(68.9)
EBITDAR (HRK million)	9.4	161.9	164.4	(94.3)
EBITDA (HRK million)	3.1	152.1	154.4	(98.0)
Rooms available[2]	1,088,673	1,551,556	1,588,036	(31.4)
Occupancy %[2]	25.4	49.4	49.8	(2,439.5) [4]
Occupancy % 365 days	9.2	25.1	25.2	(1,600.0) [4]
Average daily rate (HRK) [5]	486.4	547.0	546.6	(11.0)
RevPAR (HRK)	123.7	270.2	272.3	(54.6)
RevPAR 365 days (HRK)	42.9	137.4	137.9	(68.9)
FTE[6]	387.7	568.8	607.8	(36.2)

1 The like-for-like comparison excludes the contribution of Hotel Brioni's operations in 2019, as this hotel is currently closed and under refurbishment.

2 Rooms available and occupancy are based on operating days.

3 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare reported twelve months ended 31 December 2020 with reported twelve months ended 31 December 2019. All financial information in this report for accommodation revenue, total revenue, EBITDAR and EBITDA reflects the Group's interest.

4 In Basis Points (bps)

5 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

6 The FTE number is an estimate based on the total hours paid for all employees divided by the hours paid for an average full time employee to arrive at a total for Full Time Equivalent Employees.

The outbreak of the pandemic in Croatia led the Government to enact a total lockdown on 19 March 2020. In the weeks preceding the lockdown, the effects of the pandemic could be increasingly felt on the operations in Croatia as sport's groups started cancelling their bookings and/or shortening their stays as their respective countries (including Italy, Slovenia, Germany, Austria) announced lockdowns. We also witnessed cancellations for the pre-season, including the Easter break, which this year occurred in the first half of April. Selected operations started opening in the second half of May, reflecting expected customer volumes and market dynamics. All operations strictly adhere to the relevant local and international health authority guidelines as well as the Group's, PPHE's and Radisson's health and wellbeing standards.

As the season progressed and the booking pace and arrivals started increasing at a growing pace the Group opened a few more properties in July to meet the rising demand and the positive outlook of the season. The business was coming in at a satisfactory pace but at the same time the pandemic in was becoming more challenging. It is important to highlight that the severity of the pandemic in Istria was not as strong as it was in other parts of Croatia. Despite these somewhat favourable conditions in Istria, countries from Europe started flagging Croatia as a risky destination, which had a negative effect on the booking and arrivals dynamics. The Netherlands was the first country that marked Croatia as amber zone in mid-July. The effects were not drastic however when Austria and Slovenia followed by mid-August, the country and the Group, felt a dramatic impact. The positive trend of arrivals and bookings has shifted overnight into early departures and cancellations. The outcome was the loss of peak season business in the second half of August, and what could have had been a solid shoulder season, which were marked by extremely good weather conditions this year, throughout September and part of October.

These circumstances led to a decrease in total revenues by 69.5% to HRK 158.7 million (2019: HRK 519.6 million). Accommodation revenues decreased by 68.9% as a result of a decrease in average daily rate of 11.0% to HRK 486.4 (2019: HRK 546.6) and a reduction in occupancy to 25.4% (2019: 49.8%). This translated in a RevPAR of HRK 123.7, which represents a decrease of 54.6% over last year (2019: HRK 272.3). It is important to emphasise that the business mix was different this year with campsites contributing more to the result as opposed to previous years. Such performance is due to the investments undertaken in our campsites over the last few years coupled with the perception of safety that campsites provide to guests, particularly in an epidemic environment. Campsites contributed by over 50% to our Q3 revenues (approximately 35% last year) and over 60% in profitability (approximately 45% last year). Importantly, campsites have the highest profitability within the Group although have a comparatively a lower ADR. Therefore the changed business mix is reflected in a lower blended ADR in Croatia and therefore for the Group.

EBITDA amounted to HRK 3.1 million (2019: HRK 154.4 million). The Company applied for and utilised employee related measures as well as other measures related to taxes and contributions enacted by the Government. The total amount of such grants received from the Government amounted to HRK 22.9 million during the period within the operating business, and additional HRK 14.2 million at the Management and Central Services level. The employment related measures have been extended until for the first few months of 2021. The Company is also using the waiver in payments of concessions granted by the enacted package.

HOTEL OPERATIONS				
KEY PERFORMANCE INDICATORS	Year ended 31 December 2020	Year ended 31 December 2019 Like for like[1]	Year ended 31 December 2019 reported	Variance %[3]
Total Revenues (HRK million)	55.0	227.2	243.8	(77.4)
Total accomodation revenue (HRK million)	40.0	174.5	187.8	(78.7)
EBITDAR (HRK million)	(7.5)	54.5	57.0	n/a
EBITDA (HRK million)	(7.9)	54.2	56.5	n/a
Rooms available[2]	155,792	335,839	372,319	(58.2)
Occupancy %[2]	30,8	63,6	64,0	(3,320,0)[4]
Occupancy % 365 days	9,5	42,1	40,3	(3,080,0)[4]
Average daily rate (HRK) [5]	832,8	817,9	788,3	5,6
RevPAR (HRK)	256,8	519,2	504,5	(49,1)
RevPAR 365 days (HRK)	67,8	344,1	317,8	(78,7)

1 The like-for-like comparison excludes the contribution of Hotel Brioni's operations in 2019, as this hotel is currently closed and under refurbishment.

2 Rooms available and occupancy are based on operating days.

3 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare reported twelve months ended 31 December 2020 with reported twelve months ended 31 December 2019. All financial information in this report for accommodation revenue, total revenue, EBITDAR and EBITDA reflects the Group's interest.

4 In Basis Points (bps)

5 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

Total revenue decreased by HRK 188.9 million to HRK 55.0 million (2019: HRK 243.8 million) and accommodation revenue decreased to HRK 40.0 million, or 78.7%, (2019: HRK 187.8 million). Accommodation revenue decrease is the result of a drop in occupancy from 64.0% to 30.8%. RevPAR decreased therefore by 49.1% year-on-year to HRK 256.8. The hotel operations generated an EBITDA loss of HRK 7.9 million as opposed to an EBITDA of HRK 56.5 million the year before.

SELF-CATERING HOLIDAY APARTMENT COMPLEXES OPERATIONS

KEY PERFORMANCE INDICATORS	Year ended 31 December 2020	Year ended 31 December 2019	Variance %
Total Revenues (HRK million)	**28.0**	**105.4**	(73.4)
Total accomodation revenue (HRK million)	**23.6**	**84.5**	(72.1)
EBITDAR (HRK million)	**(3.4)**	**30.1**	n/a
EBITDA (HRK million)	**(3.8)**	**29.3**	n/a
Rooms available[1]	**122,120**	**188,065**	(35.1)
Occupancy %[1]	**29.0**	**61.5**	(3,250.0) [2]
Occupancy % 365 days	**10.3**	**29.9**	(1,960.0) [2]
Average daily rate (HRK) [3]	**666.1**	**730.7**	(8.8)
RevPAR (HRK)	**193.0**	**449.2**	(57.0)
RevPAR 365 days (HRK)	**63.4**	**218.4**	(71.0)

1 Rooms available and occupancy are based on operating days.
2 In Basis Points (bps)
3 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

Total revenue from self-catering holiday apartment complexes decreased by 73.4% year on-year to HRK 28.0 million (2019: HRK 105.4 million) and accommodation revenue followed the same trend and decreased to HRK 23.6 million (2019: HRK 84.5 million). This result was driven by a decrease in average daily rate of 8.8% and a material reduction in occupancy from 61.5% in 2019 to 29.0% in 2020. As a result, RevPAR experienced a sharp decrease of 57.0% to HRK 193.0 (2019: HRK 449.2). EBITDA was negative and amounted to HRK 3.8 million (2019: positive HRK 29.3 million).

CAMPSITE OPERATIONS

KEY PERFORMANCE INDICATORS	Year ended 31 December 2020	Year ended 31 December 2019	VARIANCE %
Total Revenues (HRK million)	**75.7**	**170.4**	(55.6)
Total accomodation revenue (HRK million)	**71.1**	**160.2**	(55.6)
EBITDAR (HRK million)	**20.2**	**77.3**	(73.9)
EBITDA (HRK million)	**14.8**	**68.8**	(78.4)
Rooms available[1]	**810,761**	**999,213**	(18.9)
Occupancy %[1]	**23.9**	**42.6**	(1,870.0) [2]
Occupancy % 365 days	**9.0**	**19.7**	(1,070.0) [2]
Average daily rate (HRK) [3]	**367.5**	**366.2**	0.3
RevPAR (HRK)	**87.6**	**155.9**	(43.8)
RevPAR 365 days (HRK)	**32.7**	**72.1**	(54.6)

1 Rooms available and occupancy are based on operating days.
2 In Basis Points (bps)
3 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

The Company's campsite operations were an important contributor to the overall performance this year, and the investments that were undertaken in previous periods enhanced further their performance. Campsite total revenue decreased comparatively less than that of other business segments (55.6%) to HRK 75.7 million (2019: HRK 170.4 million). Similarly, accommodation revenue decreased by the same percentage as total revenue to HRK 71.1 million (2019: HRK 160.2 million). Revenues decreased due to a drop in occupancy of from 42.6% to 23.9% whilst maintaining the average daily rate stable at HRK 367.5 (2019: HRK 366.2).

EBITDA showed resilience posting a positive HRK 14.8 million (2019: HRK 68.8 million).

13.5 MILLION

Istria recorded 1.8 million arrivals and 13.5 million overnights in 2020 representing a decrease of 59.2% and 52.9%, respectively, over 2019.

Tourism in the Istrian region

Istria recorded 1.8 million arrivals and 13.5 million overnights in 2020 representing a decrease of 59.2% and 52.9%, respectively, compared with 2019. On a structural level hotel accommodation was mostly impacted with a drop of more than 70% both in terms of arrivals and overnights, whilst campsites and private accommodation suffered somewhat less: campsites experienced a drop of roughly 55% whilst private accommodation around 45% (both in terms of arrivals and overnights). The share of German, Slovenian and domestic guests increased comparatively to last year's contribution in overall overnights whilst markets such as Austria, Italy or the Netherlands, which took a stricter approach flagging Croatia as a risky destination earlier in the season, recorded a drop in the overall overnights contribution relative to last year.

STRATEGIC OVERVIEW

Operating review: Germany, Hungary and Serbia - City Hotels

The following table sets out the Group's results of operations in Germany and Hungary for the year ended 31 December 2020:

KEY PERFORMANCE INDICATORS[6]

	REPORTED / IN HRK			REPORTED EUROS (€)		
	Year ended 31 December 2020	Year ended 31 December 2019	VARIANCE %	Year ended 31 December 2020	Year ended 31 December 2019	VARIANCE %
Total revenue (millions)	**74.6**	250.1	(70.2)	**9.9**	33.7	(70.6)
Accommodation revenue (millions)	**57.8**	205.2	(71.8)	**7.7**	27.7	(72.2)
EBITDAR (millions)	**(4.4)**	75.8	n/a	**(0.6)**	10.2	n/a
EBITDA (millions)	**(4.5)**	72.2	n/a	**(0.6)**	9.7	n/a
Rooms available[1]	**321,714**	320,835	0.3[2]	**321,714**	320,835	0.3[2]
Occupancy %[1]	**25.5**	81.3	(5,578.0)[2]	**25.5**	81.3	(5,578.0)[2]
Average daily rate[3]	**703.5**	786.8	(10.6)	**93.4**	106.1	(12.0)
RevPAR	**179.5**	639.7	(71.9)	**23.8**	86.2	(72.4)
FTE[4]	**130.6**	183.1	(28.7)	**130.6**	183.1	(28.7)

1 Rooms available and occupancy are based on operating days.
2 In Basis Points (bps)
3 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.
4 The FTE number is an estimate based on the total hours paid for all employees divided by the hours paid for an average full time employee to arrive at a total for Full Time Equivalent Employees.

The COVID-19 outbreak had highly disruptive repercussions on our operations. Governments in Germany and Hungary introduced lockdowns on 23 and 31 March 2020, respectively. The negative trends already felt in the weeks leading to the implementation of these measures were exacerbated and the business essentially stopped. The operations started gradually resuming in late May noting that pickup has been subdued over the summer months and the performance varied between cities. Cologne and Nuremberg performed comparatively better whilst our art'otel budapest was hit by lack of flights into to city, ban to host leisure travellers, and stricter measures being implemented as early as August.

Total reported revenue therefore decreased by an unprecedented 70.2% to HRK 74.6 million (2019: HRK 250.1 million). Accommodation revenue dropped by 71.8% to HRK 57.8 million (2019: 205.2 million) as a result of a material drop in occupancy to 25.5% (2019: 81.3%), further enhanced by a 10.6% drop in average daily rate to HRK 703.5 (2019: HRK 786.8). This resulted in RevPAR deteriorating by 71.9% to HRK 179.5 (2019: HRK 639.7).

The above translated into a negative reported EBITDA of HRK (4.5) million (2019: HRK 72.2 million).

In Germany the Group is using the "Kurzarbeit" measures enacted by the Government as a response to the COVID-19 outbreak. These measures enable regular working hours to be reduced and the Government compensates the difference to regular hours to employees thereby alleviating some pressure on payroll expenses. Other measures included the deferral of taxes (such as income tax and solidarity tax). Hungary introduced the reduced working hours' programme and waiver of employment taxes. Whilst measures in Germany have been extended until year-end 2021, Hungary does not provide any support in 2021 beyond what was granted during 2020. During the period the Group received grants in the total amount of HRK 8.2 million within the operational business and additional HRK 3.1 million at Management and Central Services level.

The Group has postponed rental payments from March onwards and is currently negotiating acceptable terms with a view to get waivers and rent deferrals. Moreover, it has rescheduled its principal repayment coming due between April and September to the end of 2021.

The German and Hungarian hotel market

The hotels in the Berlin upscale market reported a year-on-year decrease of 66.3% in RevPAR to EUR 27.26. This decrease was the result of a 13.9% decrease in average room rate to EUR 86.04 and a 60.8% decrease in occupancy to 31.7%. In Cologne, the hotels in the upscale and upper mid classes reported a 62.8% decrease in RevPAR to EUR 32.92. This decrease was a result of a 20.2% decrease in average room rate to EUR 93.31 and 53.4% decrease in occupancy to 35.3%. In Nuremberg, the hotels in the upscale and upper mid classes reported a 60.3% decrease in RevPAR to EUR 30.31. This decrease was a result of a 11.4% decrease in average room rate to EUR 91.94 and 55.2% decrease in occupancy to 33.0%. In Hungary, the upscale hotel market in Budapest reported a RevPAR decrease of 73.3% to EUR 18.50. This decrease was a result of a 12.4% decrease in average room rate to EUR 73.51 and a 69.5% decrease in occupancy to 25.2%. (Source: STR Global, December 2020)

Owned hotels

art'otel cologne

art'otel berlin kudamm

Park Plaza Nuremberg

Hotel 88 Rooms*

Leased hotels

Park Plaza Wallstreet Berlin Mitte

art'otel budapest

Partly owned hotels*

art'otel berlin mitte

Park Plaza Berlin Kudamm

** Hotel 88 Rooms was consolidated from end of December 2020 with no impact on the P&L of the Group for 2020.*

*** Partly owned does not count towards any of the figures presented in the table on page 42.*

art'otel budapest

OPERATING REVIEW

Managed and centralized services

The following table sets out the Group's results of management and central services operations for the year ended 31 December 2020:

KEY PERFORMANCE INDICATORS

	Year ended 31 December 2020	Year ended 31 December 2019 Like for like[1]	Year ended 31 December 2019 reported	Variance % [3]
Total revenue before elimination (HRK million)	**53.9**	114.6	116.9	(53.9)
Elimination of intra group revenue (HRK million)	**(48.6)**	(104.6)	(106.9)	(54.5)
Total reported revenue (HRK million)	**5.3**	10.0	10.0	(47.0)
EBITDA (HRK million)	**(16.9)**	0.6	2.9	n/a
FTE[2]	**258.2**	114.6	273.9	(5.7)

1 The like-for-like comparison excludes the contribution of Hotel Brioni's operations in 2019, as this hotel is currently closed and under refurbishment.

2 The FTE number is an estimate based on the total hours paid for all employees divided by the hours paid for an average full time employee to arrive at a total for Full Time Equivalent Employees.

3 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare reported twelve months ended 31 December 2020 with reported twelve months ended 31 December 2019. All financial information in this report for accommodation revenue, total revenue, EBITDAR and EBITDA reflects the Group's interest.

Arena Hospitality Management d.o.o., a subsidiary of the Company, entered into management agreements for all the properties owned, partially owned, leased or managed by the Group in Croatia, Germany and Hungary. Arena Hospitality Management d.o.o. provides management services to all these properties and generates management fee revenues. Hotel management revenue related to properties within the Group is eliminated upon consolidation as intra-group revenue. Furthermore, all revenue generated within the Group from centralised services in Croatia and Germany is eliminated upon consolidation as intra-group revenue.

In line with the operations in Croatia and abroad, total reported revenue decreased by 53.9% from HRK 116.9 million in 2019 to HRK 53.9 million in 2020. External revenues decreased from HRK 10.0 million in 2019 to HRK 5.3 million in 2020. EBITDA loss amounted to HRK (16.9) million (2019: profit of HRK 2.9 million) predominantly as a result of the drop in revenues.


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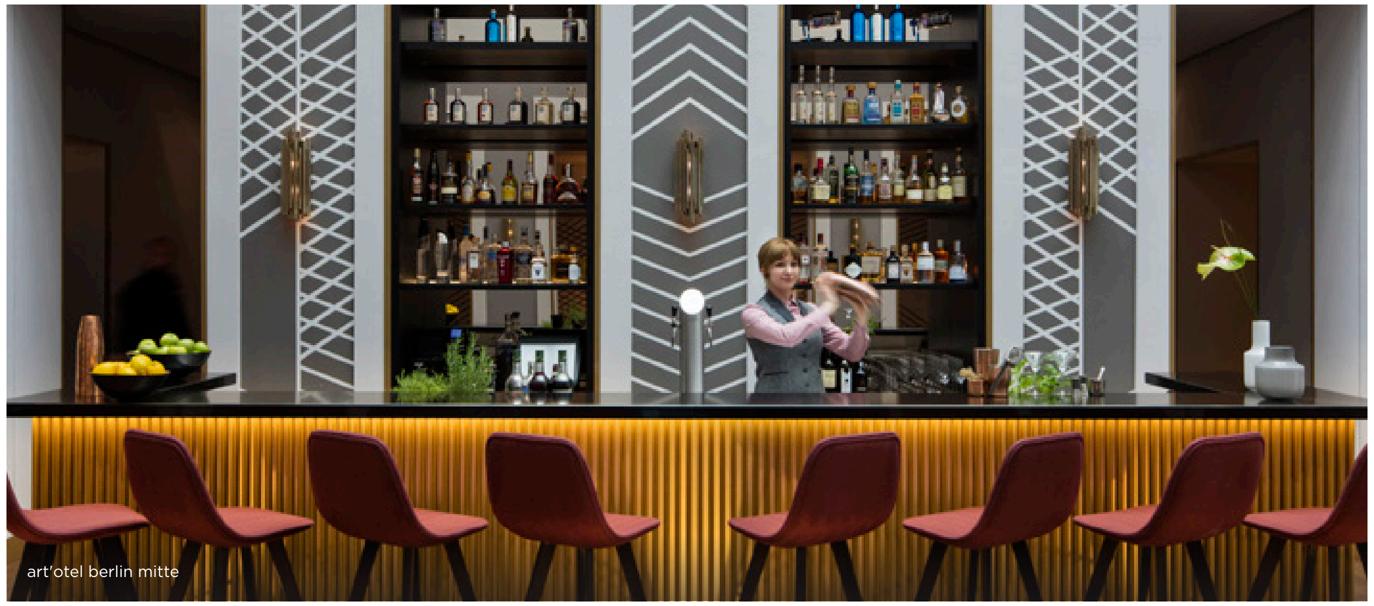
art'otel berlin kudamm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STRATEGIC OVERVIEW

Responsible business

Nonfinancial report

With 27 properties throughout Croatia, Germany, Hungary, and Serbia, Arena Hospitality Group is recognised as one of the most dynamic hospitality groups in the CEE region.

Our primary activity of developing, owning, and operating hotels, resorts, and campsites creates an increased level of responsibility towards our guests, team members, partners, shareholders, and the communities in which we operate.

Working closely with PPHE Hotel Group, we ensure that making a positive impact on our people, places, and planet are integrated into everything we do.

Doing Business Responsibly

THE WORLD HAS CHANGED

2020 was truly a challenging year. In Q1, we were already the disruption caused by the pandemic's global development, which was felt throughout the year and dictated work dynamics. It shook all segments of our lives, both business and private. Furthermore, the end of the year was marked by the strong earthquake that struck Continental Croatia, most severely Sisak-Moslavina County, leaving behind extensive damage. Arena Hospitality Group, being an active member of the community, responded immediately, and provided material and human assistance in both instances. Details of the Group's initiatives to support the community, some of which have received worldwide recognition, can be read in the coming pages of the nonfinancial report.

In 2020 the Group continued the assessment of its responsible business practices. One of the tools used is the CSR Index, a methodology used for assessing responsible business practices of Croatian companies conducted by the Croatian Business Council for Sustainable Development - HR BCSD & Croatian Chamber of Commerce. According to the CSR Index, we improved by 14 points compared to 2019, reaching 573 out of 700 points in seven categories. The most significant increase was recorded in the categories of "quality and safety of working conditions" and "focus on economic sustainability."

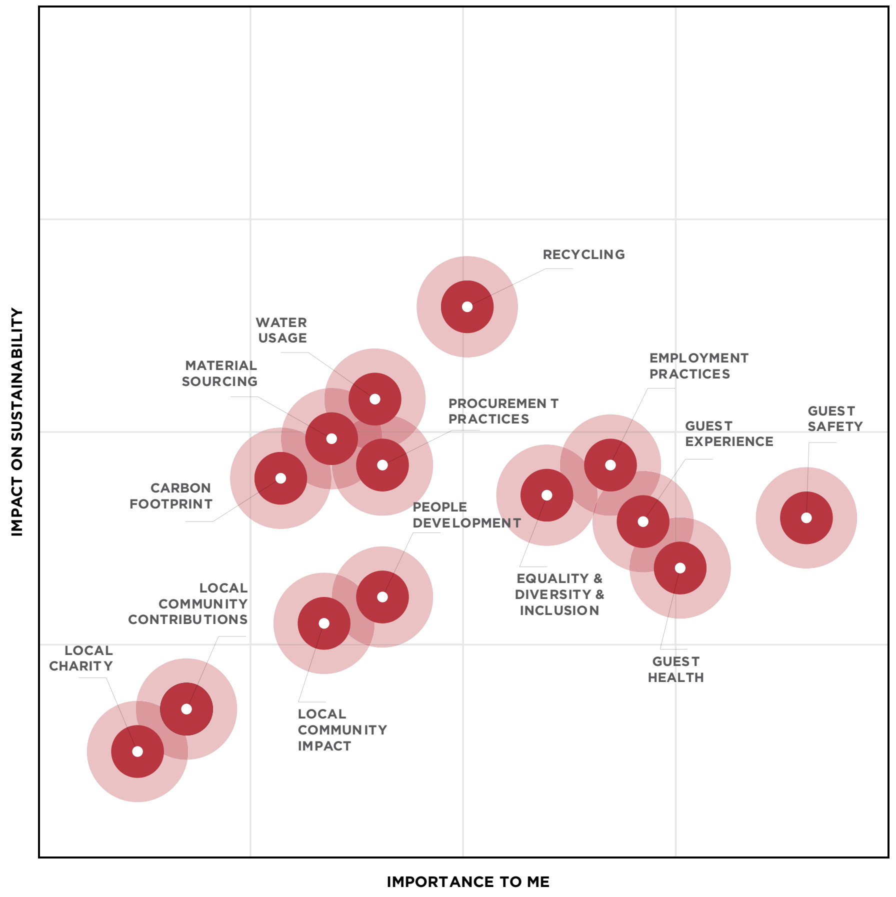
Moreover, Arena Hospitality Group was listed among the most stable entrepreneurs in the Republic of Croatia - entrepreneurs with the lowest probability of failure to fulfill obligations, as the only company from the Tourism & Hospitality industry in a survey conducted by FINA (Financial Agency), the leading Croatian financial and electronic services provider.

Our Responsible Experiences Business Strategy

As stated in the Annual Report & Accounts for 2019, we have implemented the PPHE Hotel Group's Responsible Experiences programme across the Group's business.

PPHE Hotel Group developed the strategy in collaboration with our Croatian, German, and Hungarian team members building on activities and initiatives taken in previous years and focussing on the three pillars and intangible sources of value: people, places & planet. Additionally, in 2019 PPHE Hotel Group set-up a Responsible Business Steering Group, which included Group's ambassadors representing Croatia, Germany, and Hungary, who are instrumental in delivering Responsibility actions within our business.

The Group will continue taking positive steps in setting goals and launching new projects and activities which support each of the pillars: people, places & planet across our regions.



Materiality Assessment

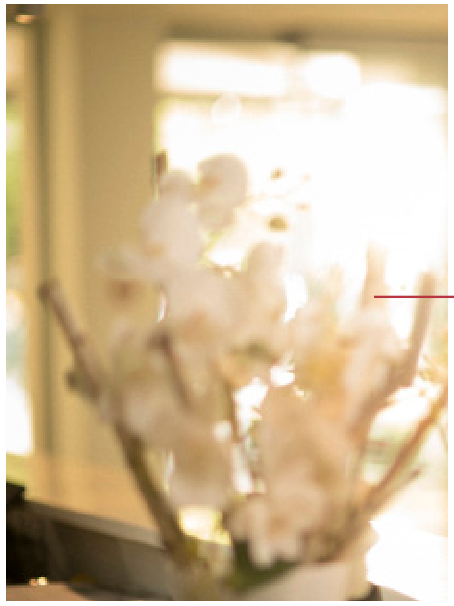
Working with PPHE Hotel Group in 2018, we conducted a comprehensive online materiality survey with over 4,000 key stakeholders, including Croatia, Germany & Hungary. Identifying our most material issues was critical in focusing our efforts and managing our risks and opportunities.

Following a thorough mapping exercise, the results were weighted and plotted by the importance to the stakeholders and impact on sustainability. Guest safety was ranked as the highest on importance, and recycling was ranked as the highest on impact.

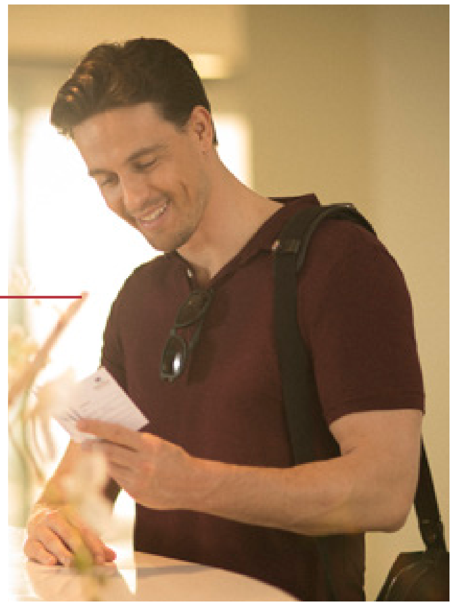
The results have enabled us to identify our most material issues and therefore focus our activities and reporting. We have continued pursuing these goals during 2020.

Sustainable Development Goals

We have mapped our business activities to align with UN Sustainable Development Goals (SDGs). While we are able to relate our activities to most of the 17 SDGs, five are most closely aligned with our purpose and values:



People



1. Attract and retain talent
2. Increase diversity in the workplace
3. Improve Guest Experience
4. Ensure health & wellbeing

Working for Arena Hospitality Group

The Group employs a diverse workforce across Croatia, Germany, Hungary, and Serbia and promotes an inclusive work environment for our team members.

Our ethos is that with the right attitude, anyone can succeed. Therefore when we recruit, we look for individuals who reflect our corporate culture based on openness, trust, support, and care. Our blueprint 'We are Creators' supports effective recruitment and retention of team members. Building and maintaining relationships with the education sector, local authorities, and charities by creating new working opportunities support PPHE Hotel Group and Arena Hospitality Group in providing an excellent guest experience while nourishing a desired working climate.

Equality, diversity and inclusion

The Group works with PPHE Hotel Group to ensure that diversity and inclusivity remain a priority and are maintained throughout the business and properties. We are fully committed to delivering fair treatment for everyone whatever their background, race, ethnicity, gender, sexual preference, or other protected characteristics are (as defined within the Equality Act 2010) and provide opportunity and development for all of our team members, guests, and stakeholders.

Pop out box: The Group supports diversity and promotes equality of opportunity for all team members and stakeholders regardless of their:

- age;
- disability;
- gender reassignment;
- marriage and civil partnership;
- pregnancy and maternity (including paternity);
- race (colour, ethnic or national background);
- religion or belief (including non-belief);
- sex/gender; and
- sexual orientation
- caring responsibilities for a 'protected characteristic' including dependants;
- socio-economic background/grouping;
- union activity; and
- unrelated spent criminal convictions

Croatia

GENDER DIVERSITY

	Total	Female: Male Ratio %
Team member	593	50 - 50
Team Leaders (Supervisory)	62	55 - 45
Hotel Management	99	45 - 55
Hotel Executive Team	22	64 -36
Senior Regional Management	26	43 - 57
Senior Corporate Management	4	25 - 75

AGE DIVERSITY

31.12.20

Age range	Permanent team members	Seasonal team members	Total
0 -17	0	1	1
18 - 30	36	44	80
31 - 40	154	45	199
41 - 50	107	31	138
50+	160	43	203
	457	**164**	**621**

15.07.20

Age range	Permanent team members	Seasonal team members	Total
0 -17	0	1	1
18 - 30	44	120	164
31 - 40	156	65	221
41 - 50	112	61	173
50+	172	75	247
	484	**322**	**806**

Germany & Hungary

GENDER DIVERSITY

	Total	Female: Male Ratio %
Team member	175	51 - 49
Team Leaders (Supervisory)	38	53 - 47
Hotel Management	7	14 - 86
Senior Regional	9	33 - 67

AGE DIVERSITY

31.12.20

Age range	Permanent team members
0 -17	0
18 - 30	66
31 - 40	60
41 - 50	39
50+	29
	194

15.07.20

Age range	Permanent team members
0 -17	0
18 - 30	69
31 - 40	72
41 - 50	55
50+	33
	229

Developing Talent

Our team members are vital to the success of our business. Recruiting and inspiring talent is essential for our businesses' continued success and each team member's success. Therefore, supporting and encouraging team members to develop and grow their careers within the company is a priority.

Development programmes

Arena Hospitality Group, in cooperation with the Ministry of Tourism & Sport, continued to focus on talent development through a scholarship programme for students. Five high school students included in the program during 2018 and 2019 completed their education and were employed in Arena Hospitality Group as cooks in 2020. Further, a university student included in the programme successfully graduated and is currently employed in the HR Department. Scholarship program in the academic year 2019/2020 involved two high school students and four University students. Additionally, the Group continued the partnership with the Juraj Dobrila University of Pula, and apart from giving guest lectures, several students have done internships in Group's various departments.

During 2020 the cooperation with Diopter – Open University in Pula on the project "Eduturizam- education in tourism for me" continued. The project, co-financed by the European Union from the European Social Fund, ended in July 2020. The project's main aim was to improve the education system in the Republic of Croatia in the tourism and hospitality sector. During the two-year process, the project involved 40 unemployed individuals, mentors, and lecturers from partner organizations. Another goal of the project was to reduce unemployment in the tourism and hospitality industry through educational programs for cooks, baristas, and senior entertainers.

The partnership signed with the local School for Tourism, Hospitality and Trade, Pula, on the project "KLIK Pula – Center for Competent Lifelong Development of Innovative Knowledge and Skills in the Hospitality and Tourism Sector in Pula" in 2019 continued in 2020. The project was funded through EU funds. The project aims were to qualify existing high school students for careers in Tourism (cooks, waiters, pastry chefs, and receptionists) and prequalification for adults looking to build careers in the stated programs. Arena Hospitality Group supported the project through practical training opportunities and specialized guest lectures. Moreover, the project served as a platform for recognizing and developing talents.

Health, Wellbeing & Team member Engagement

More than ever, we are aware of the importance of a healthy and safe work environment in both mental and physical terms. Through various initiatives, the Group's Management Board remained in touch with team members, transparently informing them about the Group's position and the measures taken to safeguard team members' and guests' health and well-being in the business recovery and reopening process.

Additionally, the Group introduced "Arena Team", a platform through which various activities were organized and carried out for the team members to preserve health and strengthen the skills needed for work, and staying in contact with colleagues.

Safety and security

The safety, security, and wellbeing of our guests and team members remain our priority. Following the course of events and the pandemic's development and to ensure the highest level of safety for both our team members and guests, the Group introduced new Health & Safety and Hygiene measures.

To help rebuild confidence among travellers, the Group has implemented WTTC Safe Travel protocols in all properties on a group level. Additionally, Park Plaza and art'otel branded properties underwent an SGS cleanliness, hygiene and safety audit. The accreditation gained followed the development of a comprehensive new security protocol developed in partnership with the Radisson Group.

Safety and security is embedded into our culture and business practices. Group's Management Board ensures that sufficient resources, time, and training are allocated to maintain and improve safety standards and to be compliant with laws and regulations.

In 2020, the Group improved its ICT infrastructure, including servers, network equipment, and communications to build our own data centre on a virtualization platform with built-in redundancy. Also, communication between remote locations in Croatia takes place entirely through 'dark fibre' optical connections. This improvement raised the business network's security, the security of stored business data and increased protection against the data's loss.

We take the privacy of our customers very seriously. We have reviewed our systems and policies to ensure that we are GDPR compliant and keeping up to date with all data privacy regulations. To comply, we identified how we process data and have instituted policies to process it in line with this new European law. We have a system in place to recognize when we deviate from the prescribed procedures of processing data, either by using technology or by self-reporting. We have also designed and are currently implementing a new training system for our team members, enabling them to anonymously reporting misuse of personal data, allowing us to mitigate and prevent further risk.

Anti-bribery

We require all team members to uphold the Group's policies on business ethics and anti-bribery and corruption. We introduced a Code of Ethics and Whistleblowing Policy during 2013 that applies to all Group Team Members. We require compliance with a comprehensive suite of anti-bribery policies, including a Gifts and Entertainment Policy, which extends to all business dealings and transactions in which we are involved. It includes a prohibition on making political donations, offering or receiving inappropriate gifts, or making undue payments to influence business dealings. Our policies and guidance in this area are routinely reviewed. These policies are included in our training and induction program 'Feeling Welcome'. All training is provided in the local language.

Excelling Guest Experience

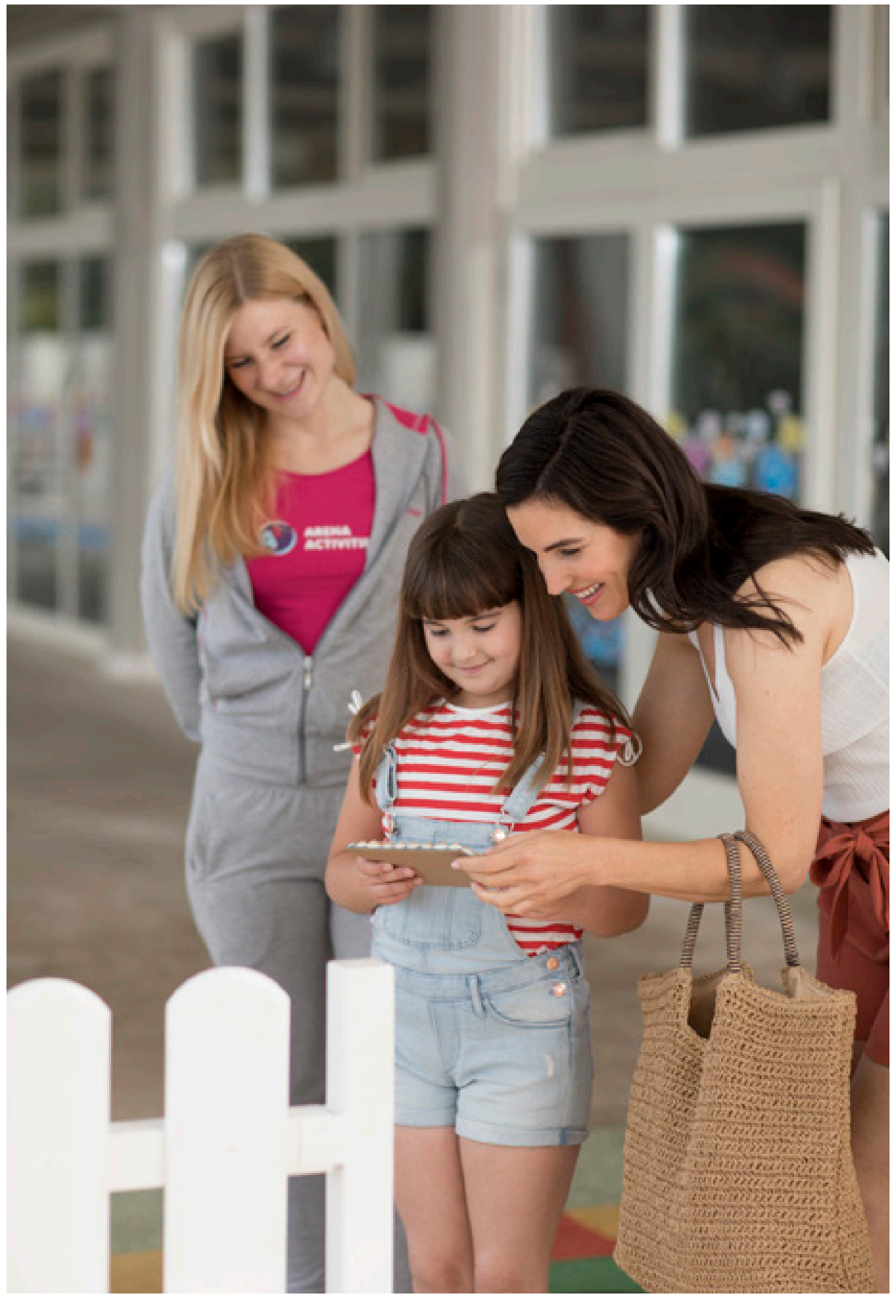
Providing an excellent guest experience is at the heart of all Group activities.

The Group's innovative and pioneering spirit in digitalisation and technological advancements was particularly evident during 2020. In light of the year's developments with regards to the pandemic and changing guest expectations, along with our intention to provide our guests with a higher sense of safety and better guest experience, we have developed new technology initiatives intended to minimise physical contact where possible.

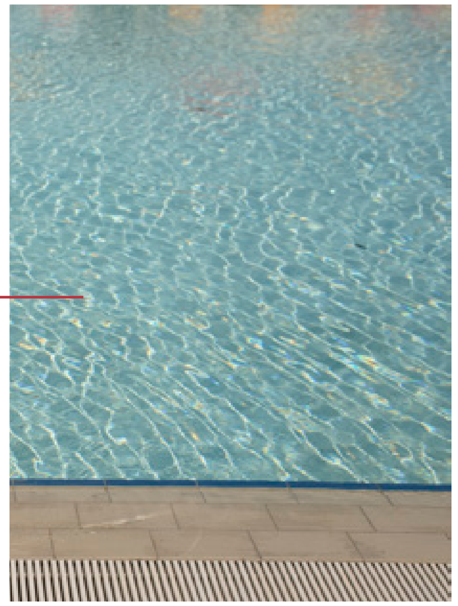
Years of experience in monitoring and implementing digital innovations have enabled us to be agile and quickly adapt to new circumstances. We have enabled our guests to minimise physical contact with team members without compromising the quality of service and availability of information through:

- mobile apps
- digital key
- web check-in
- self-check-in
- #weareinthistogether web section dedicated to all relevant and latest news

The Group will continue working on delivering an excellent guest experience through providing engaging and innovative service, maintaining and operating quality products, while ensuring the highest standards of safety, security and well-being are in place.



Places



1. Increase charity initiatives & volunteering
2. Support local community
3. Inclusive work for all

Supporting our community

The Group is committed to supporting and making a positive contribution to the communities in which it develops, owns, and operates hotels, resorts, and campsites.

Despite all the challenges the Group faced in 2020, caring for the local community's well-being has become even more important. Unforeseen circumstances meant that some of our established local community initiatives became less pressing and we instead prioritised meeting more pressing and essential needs.

During March, April, and May, in response to the pandemic, we undertook a series of activities to help the local community in Pula to cope with the emerging crisis situation:

- co-financing the purchase of UVDI-360 Room Sanitizer for Pula General Hospital and donating LCD TVs for patients;
- preparing 100 lunch packages a day for more than two months for local hospital staff;
- assisting in the preparation and cleaning of new hospital spaces for over a month.

For this significant contribution, Arena Hospitality Group achieved recognitions on a global and local level. On a global level, the Group was awarded at World Travel Market in London a "WTM World Responsible Tourism Award 2020" in the category Neighbours & Employees as Highly Commended for taking responsibility in helping others cope in the pandemic. Locally, we were awarded an "Istriana award", traditionally given to individuals from culture, music, health, science, education, economy, and sports in Istria. However, in 2020, it was awarded to individuals, institutions, and business subjects that significantly contributed to fighting COVID-19 since the beginning of the pandemic in Istria.

Cooperation with the Pula General Hospital and the Institute of Public Health of the Istrian County continued, mostly on organizing and conducting testing on COVID-19, which was in some instances secured by the Group for team members and guests. At the end of the year, we felt the need to thank the Institute of Public Health of the Istrian County for their efforts. Together with other stakeholders, they gave their best in preserving the best epidemiological situation in our region. As a result of their actions, throughout the year our guests and we felt safe. Therefore, we invited them to recharge and get away from everyday life with stay in new, luxurious, and fully equipped camping villas in Arena Grand Kažela Campsite, free of charge during winter and spring 2021.

The strong earthquake that struck Sisak-Moslavina County marked the last days of an already challenging year. The Group has shown solidarity with all directly affected, especially those who have lost their homes. After the strongest earthquake in December 2020, we responded immediately and donated ten mobile homes, which reached their destination promptly, only one day after the quake.

Supporting children & families

In 2019, the Group signed a partnership with UNICEF, and most of the activities on initiated projects continued, some to a lesser extent given the situation. In October, the Group completed the Child Right Impact Assessment (CRIA). At the end of the year, Arena Hospitality Group became one of the 14 companies in Croatia and the only hospitality company recognized by UNICEF's Advisory Body on Children's Rights and Socially Responsible Business as an example of good business practice of Croatian companies responsible towards children.

This UNICEF project aimed to find out how individual companies in Croatia respect children's rights in practice, strengthen the visibility of business practices of Croatian companies that respect the rights and welfare of children, and thus motivate other companies to more actively engage regarding children's rights.

Arena Hospitality Group is one of Croatia's first companies to adopt a child protection policy in its business processes and activities. Our child protection policy defines in great detail the circumstances, responsibilities, legal basis, processes of action, and all other information necessary for an adequate response.

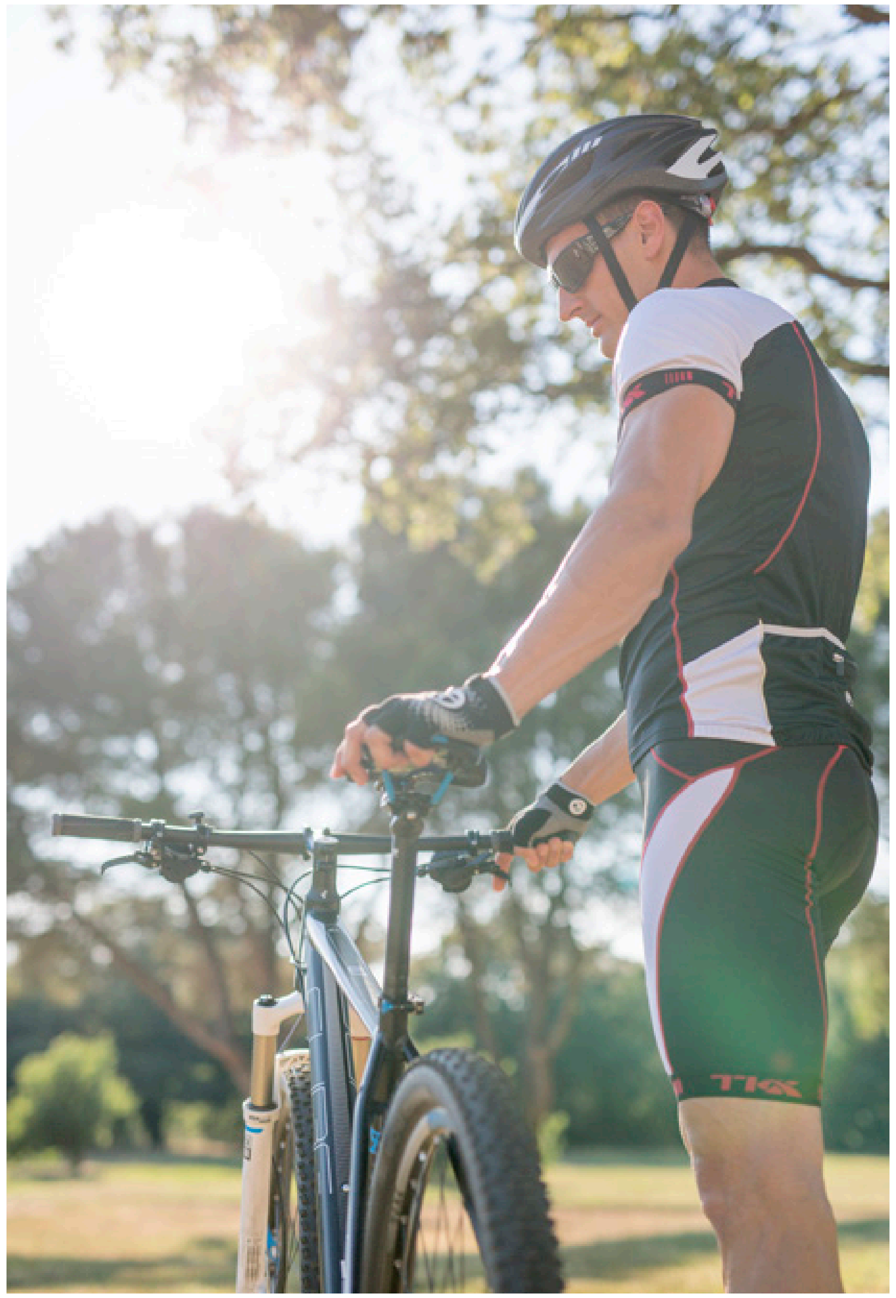
We will continue to implement policies and practices that contribute to children's rights, monitor their implementation and report on results, and take corrective action to benefit children.

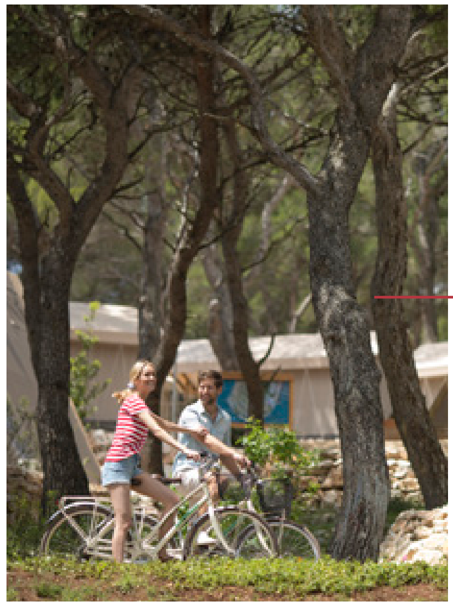
Every initiative is important

In the German region, we continued with activities aimed at the neediest members of the community through the following initiatives:

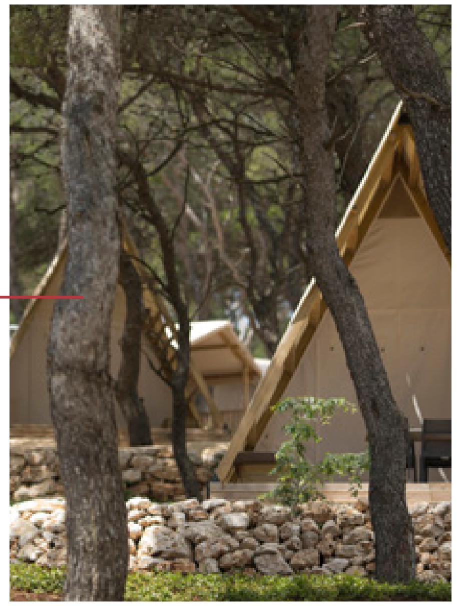
- we helped buy necessary equipment for the Malteser Kindergarten in Berlin that supports socially poor families
- we donated four vouchers for a weekend stay in art'otel cologne for a raffle in cooperation with DER travel agency to support "Die Tafel" - an initiative for those who cannot afford the basic necessities

In Croatia, we have continued with some of the long-standing initiatives to help sports clubs, athletes, and athletes with disabilities to reach their full athletic potential.





Planet



1. Reduce carbon footprint
2. Reduce water usage
3. Reduce waste and recycle more
4. Increase the use of ethically sourced and eco-friendly materials

Futureproofing our business

We invest, develop, and renovate our properties to create value for our assets. Innovation in our design is critical, and we have a unique opportunity to ensure that we futureproof our developments, considering guest feedback, environmental, social, and future trends. Looking forward, we are focusing on a number of repositioning programs within Croatia specifically, and during the planning phase, we consider the sustainability of our buildings from the start.

Where we undertake repositioning and renovation programs, we ensure that sustainability is central to the planning. Where possible, we upcycle, refresh, or donate used furniture to charity or local community groups.

We continuously make efforts to advance our responsible business initiatives. In addition to the initiatives described further in this chapter, it is important to mention our hotels Park Plaza Belvedere Medulin and Hotel Medulin, holders of the Travelife Gold Certificate, an internationally recognized accommodation sustainability certificate, issued in 2019 and valid until 2021.

Waste reduction

Working with PPHE Hotel Group we carried out a materiality assessment and identified recycling as having the largest impact on sustainability for our business.

In Q4 2019 and Q1 2020, the Group worked with PPHE Hotel Group as part of a new Waste Strategy Steering Group to identify key priorities and make holistic and faster decisions to curb our waste.

The Group's procurement team is constantly focused on minimising waste. During tendering, we take into consideration the environmental footprint of products and how they are delivered. This includes consideration of the packaging in which the products arrive, to ensure that packaging waste can be returned to the supplier or is limited to reusable, recyclable, or biodegradable waste only. Also, we encourage and support management teams in all our properties to reduce the amount of waste they produce on-site.

In line with the Company's Responsible Business Experience strategy, eco paper certified FSC® (FSC C017326) and Blue Angel are partially used for printing. Our goal is to gradually completely move to paper that is exclusively or mainly made from recycled fibres. In doing so, we contribute to a long-term sustainable, responsible business model.

The European parliament has backed a wide-ranging ban on single-use plastics, to become law in the EU countries by 3 July 2021.Therefore, in April 2020, the Group has removed from use the following single-use plastic products: straws, beverage stirrers, cotton bud sticks, PVC cups and cutlery, spoons, ice-cream cups, and finger food containers.

Our efforts to reduce waste on Group level have enabled us to show great progress from 2018 when we generated 2.321 tons of waste to 2019 when this figure dropped to 2.078 tons. 2020 showed a further decrease to 721 tons but mostly due to the reduced volume of operations as a result of the COVID-19 pandemic.

Energy and emissions

Most of our energy consumption comes from the heating and cooling of our hotels. Therefore, we monitor energy consumption through our energy-monitoring system to identify areas for short and long-term improvement and maximize energy efficiency through our control systems.

We continually invest in technology to reduce our carbon footprint and encourage our guests to help minimise their own eco-logical footprint. In 2020 we had several projects that improved energy efficiency, lowered energy use, and environmental impact. In our central laundry we brought in more energy-efficient washing machines, which resulted in lower energy consumption and emissions. In preparation for the refurbishment of hotel Brioni, we also changed 1.5 km of old water pipes, which supply the Punta Verudela peninsula. This significant improvement of infrastructure resulted in lower water consumption due to better monitoring and no leakages. As part of that project, we installed 1.5 km of new gas pipes that now supply our properties located on Punta Verudela with natural gas. This enabled us to use a more environmentally friendly energy source for our boiler rooms and kitchens. Additionally, the refurbishment of 146 apartments on Arena Verudela Beach Resort included the installation of highly efficient air conditioning units, LED lighting, and low-water water fittings (faucets and showers). It is important to mention that during the refurbishment and renovations of our properties, we make improvements to the infrastructure with a view of reducing our environmental footprint, which results in a continuous reduction in energy consumption. For instance our carbon emissions in Croatia were 1.379 tons in 2018. Following our efforts to reduce them they dropped to 704 tons in 2019. 2020 showed another decrease to 224 tons but mostly driven by the drop in business as a consequence of the COVID-19 pandemic.

In the German region, the new chiller on propane with low global warming potential (GWP) was installed at art'otel berlin mitte. With the replacement of the chiller, high-efficiency air condition chambers for ventilation of the kitchen and corridors, with heat recovery, have been installed, too. Additionally, the Group's hotels in Germany and Hungary in 2019 met the requirements for earning ISO standard 50001: 2018 which was extended in 2020. It allowed us to advance our energy management system aiming to achieve continuous improvement in controlling and maintaining the energy performance. Our carbon emissions outside Croatia amounted to 7.591 tons in 2018, 8.904 tons in 2019 and 2.379 tons in 2020. There are efforts and the vision to reduce these emissions in the future in this region too as in Croatia.

Working with PPHE Hotel Group, we promote our' Save tomorrow, today' programme, where we actively engage our guests in reducing their environmental impact by reducing water, electricity, and cleaning supplies used in our properties.

Water conservation

Water conservation is critical to us, and we continue to invest in water-efficient technology. We have also committed to installing water-softening systems into hotel rooms to reduce lime scale, reduce the use of cleaning chemicals in the water system, and improve water quality.

We also encourage guests to think about their impact on the environment and save water through our towel and linen reuse programme.

We continue to protect our beaches and marine life, especially given that we operate many properties in resort locations in Croatia. In 2020, we were awarded a Blue Flag Gold plaque for 16 years of ongoing activities to promote sustainability in the tourism sector through environmental education, environmental protection, and other sustainable development practices, which we were delighted to receive.

GOVERNANCE

Supervisory board

BORIS IVESHA

CHAIRMAN OF THE SUPERVISORY BOARD

Skills and Experience

Boris Ivesha has been President and Chief Executive Officer of PPHE Hotel Group since 1991. Mr. Ivesha was responsible for bringing the Park Plaza Hotels & Resorts® brand to the PPHE Hotel Group in 1994 in collaboration with Eli Papouchado and the Red Sea Group, and has been a major influencer in the expansion of the PPHE Hotel Group's international portfolio. In previous roles, Mr. Ivesha established the Yamit Hotel in Israel in 1984 and served as its President and was Director of the Carlton Hotel in Israel from 1979 until 1984 and General Manager of the Royal Horseguards Hotel in London from 1972 until 1979. Mr. Ivesha attended all but one of the Supervisory Board meetings in 2020.

YOAV PAPOUCHADO

VICE CHAIRMAN OF THE SUPERVISORY BOARD

Skills and Experience

Yoav Papouchado is Chairman of the Board of Red Sea Hotels Limited and has been since 1998. Red Sea Hotels Limited is a group of real-estate companies operating worldwide. Mr. Papouchado holds an MBA as well as a BA in Economics from the Tel-Aviv University. Mr Papouchado attended all but one of the Supervisory Board meetings in 2020.

KEVIN MICHAEL MCAULIFFE

SUPERVISORY BOARD MEMBER

Skills and Experience

Kevin Michael McAuliffe, is the Non-Executive Deputy Chairman of the Group. He was a member of the Society of Trust and Estate Practitioners for 20 years. Retired Chairman of Carey Group (after joining as Chief Executive in 1999), he was also Head of Advisory Services for Paribas International Private Banking and Managing Director of Paribas Suisse in Guernsey (1992-1999). He served as Finance Director of Ansbacher offshore banking group and was appointed as Chief Executive of Ansbacher's Guernsey bank and trust company business in 1994. Mr McAuliffe attended all of the Supervisory Board and Committee meetings in 2020.

AMRA PENDE

SUPERVISORY BOARD MEMBER

Skills and Experience

Mrs. Pende was a long-standing legal counsel at Uljanik, d.d., one of the biggest Croatian shipyards, where she worked for over 30 years. Ms. Pende acts as the Chairwoman of the Supervisory Board of Alpha Adriatic d.d.. Ms. Pende holds a law degree from the University of Zagreb. Mrs Pende attended all of the Supervisory Board and Committee meetings in 2020.

LORENA ŠKUFLIĆ

SUPERVISORY BOARD MEMBER

Skills and Experience

Lorena Škuflić is a professor at the Faculty of Economics and Business, University of Zagreb and since 2010 has been the Head of the Department of Economic Theory. Prior to this, Mrs. Škuflić was employed at the Croatian Chamber of Economy – County Chamber Pula and also with the Institute of Economics, Zagreb. Ms. Škuflić obtained her PhD in economics at the University of Rijeka in 1999. Mrs Škuflić attended all of the Supervisory Board and Committee meetings in 2020.

MARINO DEROSSI

SUPERVISORY BOARD MEMBER

Skills and Experience

Marino Derossi, MD, is a doctor of medicine with many years of experience in internal medicine, the owner of a private practice for internal medicine focused on gastroenterology. He is a member of the Court of Honor in the Croatian Medical Chamber and other Croatian and international societies and organisations. He was the President of the Istrian County Commission of the Croatian Medical Chamber for three terms. He is the winner of the Charter for Care for the Reputation of the Medical Staff and the Diploma for Outstanding Achievements in the Work awarded by the Croatian Medical Chamber. Mr Derossi attended all off the Supervisory Board meetings in 2020 since his appointment.

GORAN NIKOLIĆ

SUPERVISORY BOARD MEMBER (APPOINTED BY WORKERS' COUNCIL)

Skills and Experience

Goran Nikolić was born in 1977 in Pula, Croatia. He completed his primary and secondary education in Pula in 1995. In 2010, he completed the course for "System and Network Administrator" at the University College Algebra. After employment at Pula Airport and Uljanik, since 1998 he has been employed by Arenaturist (today Arena Hospitality Group) where he has already worked for 22 years. Mr. Nikolić also holds the position of President of the Workers' Council of the Company. He currently works in the Company as head of customer support in the Company's IT department. Mr Nikolić has been appointed as the Supervisory Board member as of 1 January 2021.

Management board

REUEL ("RELI") SLONIM

PRESIDENT OF THE MANAGEMENT BOARD'S STATEMENT

Skills and experience

Reuel Slonim joined Arena Hospitality Group as Executive Director in 2008. His previous role was as Vice President of Operations & Development and board member of Isrotel Hotels and Resorts, one of Israel's leading hospitality companies. Before that, Mr Slonim was Vice President of Marketing & Sales after having served for ten years as General Manager of 5-Star resort hotel. Since joining Arena Hospitality Group in 2008, he has introduced significant transformations, including the renovation, upgrade and rebranding properties, and acquisition and successful integration of the German, Hungarian and Serbian operations, creating the first Croatian international hospitality Group. Also, Mr Slonim led the Group's 2017 IPO, which raised EUR 100 million in equity proceeds. The proceeds are designated for Group's further development and growth. Moreover, the Group continues to expand in the CEE region through the addition of new properties in Zagreb and Belgrade. Under his tenure, Arena grew from a local company to a truly international player with a significant EBITDA growth. During these years the Group introduced highly professional management procedures, continuously grew in terms of digitalization and IT innovations, and refined the training and development culture, which has solidified recognition of Arena Hospitality Group as a leading hospitality company in Croatia. In addition, Mr Slonim is a member of the Croatian Tourism Association (HUT) and is active in the communities of Pula and Medulin, member of the local Tourist Boards, and a committed supporter of local culture and sports.

MANUELA KRALJEVIĆ

MEMBER OF THE MANAGEMENT BOARD AND MARKETING AND SALES DIRECTOR

Skills and Experience

Manuela Kraljević joined Arena Hospitality Group as Sales and Marketing Director in January 2009. During her previous appointment, Mrs Kraljević was covering for six years, the Sales and Marketing Director position in Croatia for the renowned hotel chain Sol Melia. Since joining Arena Hospitality Group in 2009, she has repositioned upgraded properties, directed the development of a modern sales and marketing department, introduced revenue and yield management, and was vital for online business growth. Mrs Kraljević has been an early adopter of technologically innovative solutions and has facilitated the Group's transition to a modern and agile company. Under her leadership, development and implementation of marketing and sales strategies, Arena Hospitality Group has gained market share in Croatia, Germany, Hungary and Serbia. Additionally, she is in charge of Group's Responsible Business activities. Mrs Kraljević is a member of Pula and Medulin Tourist Boards and the Economic Council of the Croatian Chamber of Commerce for the Istrian Region. Her marketing achievements were awarded several times with the Golden Goat Award.

DEVANSH BAKSHI

MEMBER OF THE MANAGEMENT BOARD AND CHIEF FINANCIAL OFFICER

Skills and Experience

Devansh Bakshi joined Arena Hospitality Group in 2019 as Board member and CFO. Until end 2018, Mr. Bakshi was the Group Finance Director for Arora Group, which is a diverse real estate business managing hotels, construction and commercial property portfolio in the UK. In 2011 Mr. Bakshi joined PPHE Hotel Group and worked for over five years as a Regional Financial Controller for the UK region leading a portfolio of owned, managed and franchised hotel finance operations. Prior to that he worked for Hilton in London UK for over 10 years, latterly as the Cluster Finance Director. Mr Bakshi obtained a Hotel Management degree and started his hospitality career in hotel operations working for Taj Group of Hotels for four years. He completed his Master of Business Administration in International Business,and is a qualified Chartered Global Management Accountant and Fellow Member of the UK Chartered Institute of Management Accountants. He is also a Financial Management Certified Associate Member of Hospitality Professionals Association in the UK. With over 23 years of experience in the hotel industry covering multiple finance disciplines he brings a wealth of industry experience.

EDMOND ("EDI") PINTO

MEMBER OF THE MANAGEMENT BOARD & CHEF OPERATION OFFICER

Skills and Experience

Edmond Pinto started his hospitality career as F&B Manager by primarily launching the all-inclusive concept in Israel, after which he served as General Manager in hotel operations working for "Isrotel" hotel chain for more than 20 years. During that time he was successfully operating various 5* resorts, luxury and city hotels. Mr Pinto holds a Bachelor's degree in Hospitality Management and has rich experience in the hotel industry with extensive knowledge in establishing cooperation with large businesses and corporate bodies and fostering community ties at the municipal level. His previous role as Resort Consultant & Owner Representative included managing all required opening procedures for a new holiday resort, providing support to the owner regarding financial issues, establishing budgets, developing, regulations, standards, terms, documentation, processes, handling requirements and inventories. Mr Pinto joined Arena Hospitality Group in March 2020 as Member of the Board and Chief Operating Officer.

STRATEGIC REPORT

Corporate governance report

Corporate Governance Code

In 2020, the Company has applied the Corporate Governance Code of the Zagreb Stock Exchange 2020 (the New Code) as adopted by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange (the ZSE) in October 2019 based on the "comply or explain" principle. The Company abides by this principle and, where relevant, provides reasons for non-compliance. The Company will publish its annual corporate governance questionnaires for 2020 in which it will provide the details on its application of the New Code within the deadlines specified in the relevant regulations. The Company also applies the Rules of the ZSE (the ZSE Rules) in its day-to-day business.

Corporate bodies

Corporate bodies of the Company are the Management Board, the Supervisory Board and the General Assembly. The members of the Company's corporate bodies are required to perform their rights and obligations in the manner as shall be in the best interest of the Company.

The members of the Supervisory Board and the Management Board are elected and appointed in accordance with the Companies Act and the Company's Articles of Association, which contain no limitations on diversity in respect age, gender, education or profession.

General Assembly

The meetings of the Company's General Assembly are convened and held in accordance with the Companies Act and the Company's Articles of Association and the General Assembly is competent for matters as set out in the Companies Act and the Company's Articles of Association.

The notices and the decisions proposed for discussion and adopted at General Assembly meetings are publicly announced in accordance with the Companies Act, the Company's Articles of Association, the Capital Market Act and the ZSE Rules, including announcements on the website of the Company, the website of the ZSE and the court register web sites. Under the current Articles of Association of the Company, there is no requirement for the shareholders to register their attendance at the General Assembly meetings in advance and any shareholder registered in the Company's share register kept by the Central Depository & Clearing Company Inc. on the 21st calendar days before the day of the General Assembly meeting is entitled to participate and to vote at the General Assembly.

There are no Company shares with special control rights and there are no limitations to voting rights arising from the Company shares. Each Company share gives right to one vote in the General Assembly of the Company.

The General Assembly is, inter alia, competent for amending the Company's Articles of Association by decision adopted with the majority of 3/4 of share capital represented at the General Assembly (except in relation to the authorised share capital increase, which decision is adopted with qualified majority of 9/10 of the share capital represented at the General Assembly). Under the current Articles of Association of the Company, the Management Board may decide, with the approval of the Supervisory Board, upon authorised share capital by issuing new shares up to an amount of HRK 51,287,210, with exclusion of shareholders' pre-emptive rights in case of share capital increase up to an amount of HRK 20,000,000 in connection with acquisition of shareholdings in companies, or acquisition of assets or rights related to hospitality activities from persons, not affiliated with the Company. Pursuant to the decision of the General Assembly dated 30 August 2017, the Company may acquire treasury shares.

During 2020, one regular meeting of the General Assembly of the Company was held on 31 August 2020. On that General Assembly:

- the Company's Annual Report for 2019 (consolidated and non-consolidated) as well as the report of the Supervisory Board for its work in 2019 were considered;
- the decision on use of profit realised in 2019 was adopted;
- the decisions on granting discharge to the members of the Supervisory Board and the Management Board for their work in 2019 were adopted;
- decision on adoption of the Management Board Remuneration Policy of the Company was adopted;
- the auditor of the Company for consolidated and non-consolidated reports for 2020 was appointed;
- the decision on appointment of Supervisory Board members was adopted.

Supervisory Board

The Supervisory Board of the Company consists of seven members, whereof six members are elected by the General Assembly of the Company and one member may be appointed by the Company's employees' council. Under the Company's Articles of Association, the mandate of Supervisory Board members is up to four years. The current members of the Supervisory Board have been elected and appointed for the mandate from 31 August 2020 until closing of the General Assembly meeting to decide upon granting discharge to members of the Supervisory Board for their work in 2021. A Supervisory Board member may be recalled before expiry of his mandate by decision of the General Assembly adopted with the majority of 3/4 of votes cast or by decision of the Company's employees' council respectively.

The authorities and the operation of the Supervisory Board are regulated by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board, in line with the provisions of the Companies Act.

The members of the Supervisory Board are: Boris Ernest Ivesha (Chairman), Yoav Arie Papouchado(Vice-Chairman), Kevin Michael McAuliffe, Marino Derossi, Amra Pende, Lorena Škuflić. Goran Nikolić replaced Damir Lučić as the member of the Supervisory Board appointed by the employees' council as of 1 January 2021. Mr Lučić, while serving his mandate as the Supervisory Board member attended all Supervisory Board meetings in 2020. Mr Marino Derossi replaced Mr Abraham Thomas in the Supervisory Board. Mr Derossi's medical background and past experience of working with public health institutions will be value add in supporting the Company in unprecedented times ahead and adds diversity into the Supervisory Board.

In accordance with Art. 138 of the ZSE Rules, the Company confirms the independent status of its Supervisory Board at the time of issuing of this Report.

As in 2020 the focus of the work of the Supervisory Board was on the effects of the COVID-19 pandemic on the Company, a target for the percentage of female members on the Supervisory and Management Board of the Company to be achieved within the next five years will be set in the course of 2021. The Company will in any case aim to at least retain and ideally also to increase the representation of women in the aforementioned bodies of the Company.

The Supervisory Board of the Company held the following meetings in 2020:

- on 28 January 2020 whereat, inter alia, a fourth member of the Management Board. Mr Edmond Pinto. was appointed (effective from 1st March 2020) and a Share Award Plan was adopted for the purpose of creating a basis for rewarding employees;
- on 26 February 2020 whereat, inter alia, the Annual Report and the annual financial statements of the Company for the year 2019 (audited, consolidated and non-consolidated) were approved;
- on 27 April 2020 whereat, inter alia, unaudited consolidated and non-consolidated quarterly report of the Company for the first quarter of 2020 were discussed;
- on 27 and 28 July 2020 whereat, inter alia, inter alia, unaudited consolidated and non-consolidated quarterly report of the Company for the second quarter of 2020 were discussed, the Remuneration Policy of the Company was approved and proposal on the election of the Supervisory Board members was adopted;
- on 31 August 2020 whereat, following the decision on the appointment of the of Supervisory Board members by the General Assembly, the new Supervisory Board of the Company was constituted and the members of the Audit Committee and Nomination and Remuneration Committee were appointed;
- on 27 October 2020 whereat, inter alia, unaudited consolidated and non-consolidated quarterly report of the Company for the third quarter of 2020 and the unaudited consolidated and non-consolidated report of the Company for the months January - September of 2020 were discussed.

Pursuant to the Company's Articles of Association and the decision of the General Assembly, members of the Supervisory Board are entitled to a fixed monthly remuneration for their work in the Supervisory Board. In 2020, the total amount of HRK 1.022.460,35 gross was paid as remuneration of Supervisory Board members. The total amount paid to the Supervisory Board declined in comparison to the amount paid in 2019, as a result of voluntary requests for reduction of remuneration by the Supervisory Board members submitted as their contribution to the Company's response to fighting the effects of COVID-19 pandemic.

Report on the Supervisory Board's appraisal

The New Code requires the Supervisory Board to conduct an annual evaluation of its effectiveness and composition as well as that of its Committees and the performance of its individual members. At the request of the President of the Supervisory Board one of the Supervisory Board members conducted this review internally by means of one-on-one interviews for 2020. No external assessors have been engaged in this process. All members of the Supervisory Board were given the opportunity to take part in this review. One member was unfortunately unavailable. Soundings were also taken on some issues from most of the members of the Management Board.

The evaluation identified issues that the members of the Supervisory Board, its Committees and the Management Board of the Company should focus on in the next period as well as recommended actions to be undertaken for tackling those issues. These are e.g. monthly reporting packs for the Supervisory Board members, setting the female quota, adoption of code of conduct, review of the effectiveness of the group's communication and engagement with its stakeholders etc. The Supervisory Board will ensure the recommendations get implemented in 2021 as much as possible, by working closely with the Management Board and other relevant stakeholders within the Company.

Supervisory Board Committees

The Supervisory Board has established an Audit Committee and a Nomination and Remuneration Committee.

Audit Committee

The Company's Audit Committee consists of three members appointed by the Supervisory Board amongst its members: Lorena Škuflić (President), Amra Pende and Kevin Michael McAuliffe (members). In accordance with Art. 139 of the ZSE Rules, the Company confirms the independent status of its Audit Committee on the day of issuance of this Report.

The operation of the Audit Committee is regulated by decisions of the Supervisory Board, in line with the provisions of the Companies Act, the Audit Act, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. During 2020, the Company's Audit Committee held three meetings: on 26 February 2020 where the Financial Statements of the Company for 2019 (consolidated and non-consolidated) was considered, on 27 July 2020 when and the appointment of Ernst & Young d.o.o. Zagreb as the Company's auditor for 2020 was recommended and on 27 October 2020 where, among others, the scope and the timing of 2020 audit were discussed. All Audit Committee members attended all meetings of the Audit Committee.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee consists of three members appointed by the Supervisory Board amongst its members: Amra Pende (President), Lorena Škuflić and Kevin Michael McAuliffe (members).

The operation of the Nomination and Remuneration Committee is regulated by decisions of the Supervisory Board, in line with the provisions of the Companies Act, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. During 2020, the Company's Nomination and Remuneration Committee held two meetings: first on 28 January 2020 to discuss and recommend the approval of the Share Award Plan of the Company and recommend appointment of Mr Edmond Pinto as the new Management Board member of the Company, and second on 27 and 28 July 2020 to recommend adoption of the Management Board Remuneration Policy of the Company and recommend appointment of the new Supervisory Board. All Nomination and Remuneration Committee members attended all meetings of the Nomination and Remuneration Committee.

Management Board

The Management Board of the Company consists of min. two and max. five members appointed by the Supervisory Board for the mandate of up to five years. As at 31 December 2020 and at the day of issuance of this Report, the members of the Management Board are: Reuel Israel Gavriel Slonim (President), Devansh Bakshi, Manuela Kraljević and Edmond Pinto (members). The mandate of appointed members of the Management Board expires on 6 September 2021 and they may be recalled before mandate expiry by decision of the Supervisory Board adopted in accordance with provisions of the Companies Act and the Company's Articles of Association.

The authorities and the operation of the Management Board are regulated by the Company's Articles of Association and the Rules of Procedure of the Management Board, in line with the provisions of the Companies Act. In particular, the Management Board has overall responsibility for the internal control and risk management processes, including that adequate accounting records are maintained and transactions are recorded accurately and fairly. The Management Board provides information on the nature of the risks and the actions to mitigate risk exposure. Some of the potential risks relevant for the Company and/or the Group are listed on pages 26 - 33.

The Management Board has regular monthly (or, if required, more frequent) meetings to review operational activities in the Company. There is also seamless interaction between the Management and Supervisory board on a regular, formal and informal basis. This has proven to be extremely important and beneficial in these sensitive turbulent times where prompt and decisive actions were required. The most important Management Board meetings held during 2020 were:

- 26 February 2020 where, inter alia, the interim report for the fourth quarter of 2019 and the Annual Report of the Company for 2019 (consolidated and non-consolidated) were adopted;
- 27 April 2020 where, inter alia, the interim report for the first quarter of 2020 was adopted;
- 27 July 2020 where, inter alia, the interim report for the second quarter of 2020 and the half-year report for the first six months of 2020 were adopted;
- 29 July 2020 where, inter alia, the decision on convocation of the Annual General Assembly meeting for 31 August 2020 was adopted;
- 27 October 2020 where, inter alia, the interim report for the third quarter of 2020 was adopted.

STRATEGIC REPORT

Investor Information

Major shareholders and affiliated companies

The share capital of the Company amounts to HRK 102,574,420.00 and is divided into 5,128,721 ordinary shares under the ticker ARNT-R-A, each without nominal value. As at 31 December 2020, 45.169 shares were held as treasury shares. Shareholders with holdings of 3% or more of the Company's registered capital as at 31 December 2020 are listed below:

	Percentage holding of Share Capital including treasury shares	Percentage holding of Share Capital excluding treasury shares
DVADESET OSAM D.O.O. (a member of the PPHE Hotel Group)	52.48%	52.95%
OTP BANKA d.d. / AZ OMF kategorije B	11,93%	12,04%
ADDIKO BANK d.d. / PBZ CO OMF-kategorije B	9.13%	9.22%
OTP BANKA d.d. / ERSTE PLAVI OMF kategorije B	7,35%	7,42%

PPHE Hotel Group is the Company's indirect controlling shareholder, through its 100% owned subsidiaries: Park Plaza Hotels (UK) Ltd, PPHE Coop B.V., Euro Sea Hotels N.V., Bora B.V. and Dvadeset Osam d.o.o. Subsidiaries included in the Group are listed in Appendix on pages 124-125. The Companies relations and transactions with affiliated companies, including its subsidiaries and other affiliates, are described in Note 26.

Valuation

In '000 HRK	2020		
	High	Low	Last
Share price	388	189	338
Market capitalization[1]	1,972,418	960,791	1,718,241
Net debt[2]	964,070	964,070	964,070
EV[3]	2,936,488	1,924,861	2,682,311
EV/EBITDA	n/a	n/a	n/a

1 Market capitalization calculated as share price multiplied by the number of outstanding shares

2 Net debt calculated as current and non-current bank borrowings, other current and non-current loans and finance lease obligations, minus cash and cash equivalents.

3 EV represents the enterprise value, calculated as the sum of market capitalisation and net debt

Share price performance

The Group's share price performance during the year was extremely volatile. The volatility was driven by the COVID-19 pandemic. The year started at HRK 372 per share and closed at HRK 338 per share, representing a decrease of 9.1%. The share experienced a trough in March falling to HRK 189 per share (representing a 49.2% drop compared to the yearly opening price), and a peak in February when the share traded at HRK 388 (representing a 4.3% increase compared to the yearly opening price). The average daily liquidity of the share during the year was HRK 0.5 million. During the year the total volume of shares traded amounted to HRK 104.9 million of which HRK 79.3 million was regular trade and HRK 25.5 million was through five block trades. The total volume traded was higher by 20.0% when compared to the 2019 levels.

The Group has two active market makers, Interkapital vrijednosni papiri d.o.o. and Zagrebačka banka d.d. and four research institutions that regularly publish notes and analysis: Erste bank d.d., Interkapital vrijednosni papiri d.o.o., WOOD & Company Financial Services, a.s., and Zagrebačka banka d.d.. Regular meetings are held with existing and prospective investors. During the year Management attended some of the most relevant investor events, amongst other, Zagreb and Ljubljana Investor conferences, Erste Investor conference in Vienna, Wood Investor conferences in Prague and Bucharest. These meetings took place through online channels due to the extraordinary circumstances.

The Group, listed on the Prime listing of the Zagreb stock exchange, is committed to the highest standards of corporate governance and transparency and preaches an open and proactive dialogue with the investor community.

Share price performance relative to the Crobex and Crobex Prime indicies

FINANCIAL STATEMENTS

Management Board's Report

The Management Board presents its report and the audited financial statements of the Company (consolidated and non-consolidated) for the year ended 31 December 2020 to the Supervisory Board of the Company.

Principal activities

The Company is registered in the Commercial Court in Pazin, Croatia and, through its owned and leased assets in Croatia and controlled subsidiaries in Germany, Hungary and Serbia (which include owned, leased, operated and jointly-controlled assets), operates and develops full- service upscale, upper upscale and lifestyle hotels, self-catering holiday apartment complexes and campsites.

The majority of the Group's hotels and one of its self-catering holiday apartment complexes operate under the following brands: Park Plaza®, art'otel®, Arena Hotels and Arena Campsites.

The Company has the exclusive right from PPHE Hotel Group to operate and develop hotels and self-catering holiday apartment complexes under the Park Plaza® brand in 18 countries in the CEE region.

Business review

A review of the business during the year is contained in the Chairman of the Supervisory Board's Statement, the President of the Management Board's Statement, Our Business Model and the Strategy, Key Performance Indicators, the Chief Financial Officer's Statement, and the Operating Reviews.

2020 results

The results for the year ended 31 December 2020 are set out in the attached audited financial statements of the Company (consolidated and non-consolidated).

Principal risks and uncertainties

Internal controls and an effective risk management regime are integral to the Group's continued operation. Overall responsibility for the risk management processes lies with the Management Board.

The Management Board provides information on the nature of the risks and the actions to mitigate risk exposure. Not all potential risks are listed on pages 34 - 37. Some risks are excluded because the Management Board considers them not to be material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Management Board, or which the Management Board currently considers immaterial, that may also have an adverse effect on the Group.

Auditors

Ernst & Young d.o.o., Radnička cesta 50, 10.000 Zagreb, Croatia is the Company's independent auditor appointed by decision of the General Assembly dated 31 August 2020 for the audit of the consolidated and non-consolidated annual financial statements of the Company for 2020. In 2020, the Company incurred fees in the total amount of HRK 565,067 from its independent auditor.

Going concern

The Management Board has considered detailed cash flow projections for the short to medium term with a recovery to 2019 levels conservatively estimated for 2023. This assumes the Group complies with its covenants. Based on this the Management Board has determined that the Group is likely to continue in business for at least 12 months from the date of approval of the financial statements under a going concern assumption.

Financial risk management objectives and policies

Pages 118 and 123 of the consolidated financial statements of the Company set out the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

Management Board's responsibilities

Pursuant to the Croatian Accounting Act (Official Gazette 78/15, 134/15, 120/16,116/2018, 42/2020 and 47/2020), the Management Board is required to ensure that the financial statements are prepared in accordance with International Financing Reporting Standards (IFRS) as adopted by the European Union in order to give a true and fair view of the Company's financial performance and its results for the reporting period.

In preparing the Consolidated Financial Statements, the Management Board is responsible for:

- selecting and consistently applying appropriate accounting policies;
- making reasonable and prudent judgments and estimates;
- complying with applicable accounting standards, while reporting and explaining all material departures in the financial statements;
- preparing the financial statements under the going concern principle, unless it is inappropriate due to the Company's actual position; and
- establishing appropriate and statutory accounting records so that the records disclose, with reasonable accuracy, the financial position of the Company and its income and expenses.

The Management Board confirms that it has complied with the above requirements in preparing the financial statements of the Company (consolidated and non-consolidated).

The Management Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable it to ensure that the financial statements of the Company (consolidated and non-consolidated) have been properly prepared in accordance with the Croatian Accounting Act. The Management Board is responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management Board's declaration

So far as each member of the Management Board, who is a member at the time the Management Board's Report is approved, is aware, there is no relevant audit information of which the Company's auditor is unaware and each member has taken all steps he or she ought to have taken as a member of the Management Board to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Management Board's responsibility statement

Persons responsible for preparing the annual report: Reuel Israel Gavriel Slonim, President of the Management Board, Devansh Bakshi, member of the Management Board and Chief Financial Officer, Manuela Kraljević, member of the Management Board and Marketing and Sales Director and Edmond Pinto, member of the Management Board & Chief Operating Officer, confirm to the best of their knowledge that:

- the financial statements of the Company (consolidated and non-consolidated), which have been prepared in accordance with IFRS as adopted by the European Union, give an objective view of the assets and liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- the Management Report contains an objective presentation of the development and the operating results of the Company and its undertakings in the consolidation taken as a whole, with a description of the principal risks and uncertainties to which they are exposed.

The Strategic Report includes a fair review of the development and performance of the business and the position of the Company, and provides information necessary for shareholders to assess the Company's performance, business model and strategies.

The Management Board has a reasonable expectation that the Company has adequate resources to continue in business and the going concern principle was applied in preparing the financial statements of the Company (consolidated and non-consolidated).

Management Board

President:

R. Slonim

REUEL ISRAEL GAVRIEL SLONIM

Members:

MANUELA KRALJEVIĆ

DEVANSH BAKSHI

E. Pinto

EDMOND PINTO

Management Board's Decision

Pula, 24.02.2021.

According to Article 250.a, 250.b, 300.a, 300.b of the Croatian Companies Act, Articles 462 and 463 of the Croatian Capital Market Act and Articles 19, 20, 21 and 24 of the Croatian Accounting Act, the Management Board of Arena Hospitality Group d.d. Pula (the "Company") passed the following decision on 24 February 2021.

DECISION ON ESTABILISHING THE ANNUAL FINANCIAL STATEMENTS AND THE PROPOSAL OF OFFSET OF THE REALISED LOSSES

I. The Management Board hereby determines the Annual Financial Statements of the Company for 2020 (consolidated and non-consolidated), which comprise of:

- the statement of financial position (balance sheet),
- the income statement,
- the statement of comprehensive income,
- the statement of changes in equity,
- the statement of cash flows, and
- the notes to the financial statements.

The Company's non-consolidated Annual Financial Statements for 2020 refer to Arena Hospitality Group d.d.

The Company's consolidated Annual Financial Statements for 2020 refer to: Arena Hospitality Group d.d., Ulika d.o.o., Mažurana d.o.o., Sugarhill Investment B.V. and Germany Real Estate B.V. (the "Group").

II. The Annual Financial Statements of the Company for 2020 (consolidated and non-consolidated) have been audited by Ernst & Young d.o.o., OIB: 58960122779, Radnička cesta 50, HR-10 000 Zagreb (the "Auditor"), and the Auditor's Report forms an integral part thereof.

III. The Management Board hereby adopts the Company's Annual Report for 2020 (consolidated and non-consolidated), which comprises of:

- Annual financial statements of the Company for 2020 (consolidated and non-consolidated), together with the Auditor's Report,
- Statement on application of the corporate governance code,
- Management Report for 2020 (consolidated and non-consolidated), which includes the Strategic Report and the Corporate Governance Report, and
- Statement of the Company's responsible persons.

IV. The Management Board hereby determines the proposal to offset the Company's losses realised in 2020 in the total amount of HRK 103.172.335 from the retained earnings generated in previous years.

V. This Decision, together with the Company's Annual Report for 2020 (consolidated and non-consolidated), is delivered to the Supervisory Board of the Company for consideration and approval respectively.

The Management Board shall convene the Annual General Assembly of the Company after the Supervisory Board approves the Annual financial statements of the Company for 2020 (consolidated and non-consolidated) and adopts thereto related decisions.

VI. This Decision and the Company's Annual Report for 2020 (consolidated and non-consolidated) shall be published in the way and within the deadlines prescribed by the Capital Market Act and the Accounting Act.

Management Board

President:

REUEL ISRAEL GAVRIEL SLONIM

Members:

MANUELA KRALJEVIĆ

DEVANSH BAKSHI

EDMOND PINTO

Supervisory Board's Report

In accordance with Article 263 Par. 3, Article 300.c and Article 499 of the Companies Act and Article 19 and 30 Par. 4 of the Articles of Association of the company Arena Hospitality Group d.d. (hereinafter: the Company), the Supervisory Board of the Company, at its meeting held on 24 February 2021, determined the following

REPORT

TO THE ARENA HOSPITALITY GROUP D.D. GENERAL ASSEMBLY

I/ During 2020, the Supervisory Board of the Company had seven members. As at 31 December 2020, the members of the Supervisory Board were: Boris Ernest Ivesha (Chairman), Yoav Arie Papouchado (Vice-Chairman), Kevin Michael McAuliffe, Marino Derossi, Amra Pende, Lorena Škuflić and Damir Lučić.

The Supervisory Board of the Company held six meetings in 2020.

- on 28 January 2020 whereat, inter alia, a fourth member of the Management Board. Mr Edmond Pinto. was appointed (effective from 1st March 2020) and a Share Award Plan was adopted for the purpose of creating a basis for rewarding employees;
- on 26 February 2020 whereat, inter alia, the Annual Report and the annual financial statements of the Company for the year 2019 (audited, consolidated and non-consolidated) were approved;
- on 27 April 2020 whereat, inter alia, unaudited consolidated and non-consolidated quarterly report of the Company for the first quarter of 2020 were discussed;
- on 27 and 28 July 2020 whereat, inter alia, inter alia, unaudited consolidated and non-consolidated quarterly report of the Company for the second quarter of 2020 were discussed, the Remuneration Policy of the Company was approved and proposal on the election of the Supervisory Board members was adopted;
- on 31 August 2020 whereat, following the decision on the appointment of the of Supervisory Board members by the General Assembly, the new Supervisory Board of the Company was constituted and the members of the Audit Committee and Nomination and Remuneration Committee were appointed;
- on 27 October 2020 whereat, inter alia, unaudited consolidated and non-consolidated quarterly report of the Company for the third quarter of 2020 and the unaudited consolidated and non-consolidated report of the Company for the months January - September of 2020 were discussed.

II/ The Supervisory Board of the Company established the Audit Committee and the Nomination and Remuneration Committee.

During 2020, the Audit Committee had three members: Lorena Škuflić (President), Amra Pende and Kevin Michael McAuliffe and held three meetings.

During 2020, the Nomination and Remuneration Committee had three members: Amra Pende (President), Lorena Škuflić and Kevin Michael McAuliffe, and held two meetings.

III/ In accordance with its responsibilities, the Supervisory Board has performed supervision and examined the Company business books and the Company documentation. The Supervisory Board examined the conduct of the Company's operations based on the detailed information received from the Management Board by way of regular communication, particularly by way of reports of the Management Board on the operations and the status of the Company. Accordingly, the Supervisory Board determined that the Company acts in compliance with the law, the Articles of Association and other acts of the Company and the decisions of the General Assembly.

IV/ The Supervisory Board examined the Company's annual report for 2020 (consolidated and non-consolidated), which comprises of:

- Annual financial statements of the Company for 2020 (consolidated and non-consolidated) - statement of financial position (balance sheet), income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial

statements,
- Report of the Company's auditor for 2020,
- Statement on application of the corporate governance code,
- Management Report for 2020 (consolidated and non-consolidated), which includes Strategic Report and Corporate Governance Report, and
- Statement of the Company's responsible persons.

The Supervisory Board acknowledges the receipt of the Audit Committee Report dated 23 February 2021 with respect to preparation and issuing of the Annual financial statements of the Company for 2020.

The Supervisory Board has no objections to the Company's annual report for 2020 (consolidated and non-consolidated), including the Report of the Company's auditor (Ernst & Young d.o.o. Zagreb).

The Supervisory Board establishes that the Annual financial statements of the Company (consolidated and non-consolidated) for the year ended on 31 December 2020 were prepared in compliance with the state of the Company's business books and that they correctly show the financial and business state of the Company.

Therefore, the Supervisory Board approves the Company's annual report for 2020 (consolidated and non-consolidated), whereby the Annual financial statements of the Company for 2020 (consolidated and non-consolidated) are considered as approved by the Management Board and the Supervisory Board, pursuant to the provisions of Articles 300.c and 300.d of the Companies Act and Article 30 of the Company's Articles of Association.

V/ The Supervisory Board examined the Management Board's Report on related party transactions in 2020 and has no objections to this Report. The Supervisory Board also has no objections to the results of audit of this Report from Article 498 of the Companies Act and to the Management Board's statement pursuant to Article 497 Par. 3 of the Companies Act contained in this Report.

VI/ The Supervisory Board has ensured that the Management Board has had sufficient strength and a good balance of skill sets to ensure it carried out all its tasks during what has been one of the most stressful periods in the Company's history. There has been an increase in the data flow between the Management Board and the Supervisory Board during 2020 and this is planned to increase further during 2021. Based on the above, the Supervisory Board evaluates the overall business of the Company as well as the work of the Management Board and the Supervisory Board as successful, and emphasises good cooperation with the members of the Management Board.

VI/ The Supervisory Board adjoins to the proposal of the Management Board regarding the Company's losses realised in 2020 i.e. that the General Assembly decides that Company's losses realised in 2020 in the total amount of HRK 103.172.335 are to offset against retained earnings of the previous years.

BORIS ERNEST IVESHA
Chairman of the supervisory board

FINANCIAL STATEMENTS

Supervisory Board's Decision

Pula, 24.02.2021.

I. The Supervisory Board hereby approves the Company's annual report for 2020 (consolidated and non-consolidated), which comprises of:

- Annual financial statements of the Company for 2020 (consolidated and non-consolidated) - statement of financial position (balance sheet), income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements,
- Report of the Company's auditor for 2020,
- Statement on application of the corporate governance code,
- Management Report for 2020 (consolidated and non-consolidated), which includes Strategic Report and Corporate Governance Report, and
- Statement of the Company's responsible persons.

II. Pursuant to the provisions of Articles 300.c and 300.d of the Companies Act and Article 30 of the Company's Articles of Association, by the Supervisory Board's approval of the Company's annual report for 2020 (consolidated and non-consolidated), the Annual financial statements of the Company for 2020 (consolidated and non-consolidated) are considered as approved by the Management Board and the Supervisory Board.

III. The Supervisory Board hereby approves the publication of the Company's annual report for 2020 (consolidated and non-consolidated).

IV. The Supervisory Board adjoins to the proposal of the Management Board that the General Assembly decides that the loss that the Company realised in 2020 in the total amount of HRK 103.172.335 is offset against retained earnings from previous years.

BORIS ERNEST IVESHA
Chairman of the supervisory board

FINANCIAL STATEMENTS

Independent Auditor's Report

To the Shareholders of Arena Hospitality Group d.d.

EY Building a better working world

REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Arena Hospitality Group d.d. (the Company), and consolidated financial statements of Arena Hospitality Group d.d. and its subsidiaries (together - the Group) which comprise the separate and consolidated statement of financial position as at 31 December 2020, the separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and Group as at 31 December 2020 and of its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Key audit matter	How we addressed key audit matter
Impairment of the tourism property (the separate and consolidated financial statements) Refer to Notes 2 (j) Property, plant and equipment and 2 (k) Impairment of non-financial assets and Note 4 Property, plant and equipment of the separate and consolidated financial statements. The carrying amount of property, plant and equipment of the Group as at 31 December 2020 was HRK 2,188,286 thousand (Company: HRK 1,513,355 thousand). Property, plant and equipment mostly consists of tourism properties and related assets and is included in the separate and consolidated statement of financial position at historical cost less accumulated depreciation and impairment, where required. Management annually conducts a test to identify assets with impairment indicators. In order to determine if there are impairment indicators, management considers occupancy rates, number of sold accommodation units, revenue per available room, gross operating profit and other measures. The estimation process is complex and highly subjective and is based on assumptions. Due to the above factors and significant impact of COVID 19 on the sales revenue that are generated by the tourism properties, impairment of tourism properties was determined as a key audit matter.	Our audit procedures related to impairment of property, plant and equipment included, among others, assessing the appropriateness of the methodology used for the impairment testing. Our audit procedures included testing, on a sample basis, of key Management's estimates used to determine if there are impairment indicators and review of the relevant Company and Group internal reports and comparison of the projections in the model for individual tourism properties with the historical data including, among other, a comparison of gross operating profit, occupancy rate, average daily rate, revenue per available room. We performed audit procedures on the mathematical correctness of calculation used in this model. Additionally, for most significant assets the Company and the Group provided us with internal assessments of the market value or reports from the external valuers. We reviewed the valuation reports and tested, on a sample basis, the correctness of the input data. In addition, we involved valuation specialists and used external data in assessing and corroborating the assumptions used in the valuation reports. We also performed assessment of Covid-19 impact on the valuation of tourism properties as well as assessment of the adequacy of related disclosures in the Notes 2 (j) Property, plant and equipment and 2 (k) Impairment of non-financial assets and Note 4 Property, plant and equipment to the separate and consolidated financial statements and their compliance with IFRS as adopted by EU.

Other information included in the Company's and the Group's Annual Report for year 2020

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2020 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. the enclosed Management report for 2020 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Company's and the Group's Annual Report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and
4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's and the Group's Annual Report for the year 2020 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the light of the knowledge and understanding of the entity and Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Annual Report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on 30 August 2017. Our appointment has been renewed annually by General Meeting of Shareholders resolution, with the most recent reappointment on 31 August 2020, representing a total period of uninterrupted engagement appointment of four years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 February 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

Report on Regulatory requirements

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

Berislav Horvat, President of the Board and Certified auditor

25 February 2021

Ernst & Young d.o.o.

Radnička cesta 50,

Zagreb

Republic of Croatia

FINANCIAL STATEMENTS

Consolidated and company statement of financial position

		As at 31 December			
		Group		Company	
	Note	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Assets					
Non-current assets:					
Property, plant and equipment	4	**2,188,286**	2,012,342	**1,513,355**	1,376,114
Intangible fixed assets	5	**1,407**	1,065	**1,276**	1,065
Right-of-use assets	15	**267,840**	215,021	-	-
Inventories		**13,024**	9,097	**12,953**	9,097
Interest in joint ventures	6	**39,829**	38,718	-	-
Other non-current financial assets	7	**3,109**	3,247	**691,445**	667,206
Deferred tax asset	23	**65,714**	58,650	**63,143**	58,037
Restricted deposits and cash		**12,410**	11,324	**12,410**	11,324
		2,591,619	2,349,464	**2,294,582**	2,122,843
Current assets:					
Inventories		**2,267**	3,105	**1,531**	2,002
Other current financial assets		**224**	221	**224**	221
Trade receivables	8	**8,301**	14,738	**2,719**	5,320
Other receivables and prepayments	9	**13,020**	8,915	**12,682**	5,370
Income tax receivable		**1,733**	-	**9**	3,143
Cash and cash equivalents	10	**425,613**	718,891	**370,878**	597,071
		451,158	745,870	**388,043**	613,127
Total assets		**3,042,777**	3,095,334	**2,682,625**	2,735,970

		As at 31 December			
		Group		Company	
	Note	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Equity and liabilities					
Equity:	11				
Issued capital		**102,574**	102,574	**102,574**	102,574
Share premium		**1,142,742**	1,142,742	**1,142,742**	1,142,742
Hedging reserve		**(9,826)**	(9,061)	-	-
Other reserves		**317,018**	313,983	**557,429**	556,610
Accumulated earnings/(losses)		**(21,058)**	206,225	**128,073**	231,245
		1,531,450	1,756,463	**1,930,818**	2,033,171
Non-current liabilities:					
Bank borrowings	14	**990,293**	920,126	**617,365**	568,385
Lease liability	15	**285,692**	202,355	-	-
Provisions	16	**45,358**	41,319	**45,358**	41,319
Other liabilities		**9,240**	7,992	**1,327**	1,549
		1,330,583	1,171,792	**664,050**	611,253
Current liabilities:					
Trade payables		**25,073**	28,758	**13,587**	15,708
Current lease liability	15	**37,738**	19,626	-	-
Other payables and accruals	17	**28,089**	46,959	**18,631**	27,631
Income tax liabilities		-	1,363	-	-
Liabilities towards related parties		**13,884**	12,110	**702**	4,108
Bank borrowings	14	**75,960**	58,263	**54,837**	44,099
		180,744	167,079	**87,757**	91,546
Total liabilities		**1,511,327**	1,338,871	**751,807**	702,799
Total equity and liabilities		**3,042,777**	3,095,334	**2,682,625**	2,735,970

The accompanying accounting policies and notes are an integral part of these financial statements.

These financial statements are approved and signed by the Management board of the Company and the Group on 24 February 2021.

REUEL ISRAEL GAVRIEL SLONIM
President of the Management Board

MANUELA KRALJEVIĆ
Member of the Management Board

DEVANSH BAKSHI
Member of the Management Board

EDMOND PINTO
Member of the Management Board

FINANCIAL STATEMENTS

Consolidated and company income statement

		Year ended 31 December			
		Group		Company	
	Note	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Revenues	18	**238,314**	778,104	**167,685**	527,876
Operating expenses	19	**(250,222)**	(534,800)	**(163,772)**	(374,200)
EBITDAR		**(11,908)**	243,304	**3,913**	153,676
Rental expenses and concession fees: land		**(6,349)**	(13,802)	**(6,295)**	(10,031)
EBITDA		**(18,257)**	229,502	**(2,382)**	143,645
Depreciation, amortisation and impairment	4/5/15	**(131,955)**	(99,499)	**(69,847)**	(61,436)
EBIT		**(150,212)**	130,003	**(72,229)**	82,209
Financial expenses	20	**(45,047)**	(30,255)	**(15,947)**	(16,918)
Financial income	21	**836**	849	**7,080**	5,780
Other (expenses)/income	22	**(30,832)**	6,665	**(27,182)**	7,064
Share in result of joint ventures		**(7,002)**	1,509	-	-
Profit/(loss) before tax		**(232,257)**	108,771	**(108,278)**	78,135
Income tax benefit/(expense)	23	**4,974**	40,205	**5,106**	46,325
Profit/(loss) for the year		**(227,283)**	148,976	**(103,172)**	124,460
Profit/(loss) attributable to:					
Equity holder of the parent		**(227,283)**	148,976	**(103,172)**	124,460
Basic and diluted (loss)/earnings per share	24	**(44.70)**	29.10	**(20.29)**	24.31

The accompanying accounting policies and notes are an integral part of these financial statements.

FINANCIAL STATEMENTS

Consolidated and company statement of other comprehensive income

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Profit/(loss) for the year	**(227,283)**	148,976	**(103,172)**	124,460
Other comprehensive income to be recycled through profit and loss in subsequent periods:				
Unrealised gains/(losses) on available-for-sale securities	**3**	22	**3**	22
Foreign currency translation adjustment of foreign operations	**2,216**	348	-	-
Loss from cash flow hedges	**(765)**	(3,584)	-	-
Other comprehensive income	**1,454**	(3,214)	**3**	22
Total comprehensive income/(loss)	**(225,829)**	145,762	**(103,169)**	124,482

The accompanying accounting policies and notes are an integral part of these financial statements.

Consolidated statement of changes in equity

In HRK'000	Issued capital	Share premium	Hedging reserve	Other reserve	Accumulated earnings / (loss)	Total
Balance as at 1 January 2019	102,574	1,142,742	(5,477)	322,627	85,838	1,648,304
Profit/(loss) for the year	-	-	-	-	148,976	148,976
Other comprehensive income / (loss)	-	-	(3,584)	370	-	(3,214)
Total comprehensive income/(loss)	-	-	(3,584)	370	148,976	145,762
Legal reserves distribution	-	-	-	2,946	(2,946)	-
Dividend distribution*	-	-	-	-	(25,643)	(25,643)
Treasury shares	-	-	-	(16,331)	-	(16,331)
Property tax from Sugarhill transaction received back	-	-	-	4,371	-	4,371
Balance as at 31 December 2019	102,574	1,142,742	(9,061)	313,983	206,225	1,756,463
Profit/(loss) for the year	-	-	-	-	(227,283)	(227,283)
Other comprehensive income /(loss)	-	-	(765)	2,219	-	1,454
Total comprehensive income/(loss)	-	-	(765)	2,219	(227,283)	(225,829)
Share based payments	-	-	-	1,353	-	1,353
Treasury shares	-	-	-	(537)	-	(537)
Balance as at 31 December 2020	102,574	1,142,742	(9,826)	317,018	(21,058)	1,531,450

The accompanying accounting policies and notes are an integral part of these financial statements.

*Dividend distribution refers to distribution of HRK 5 per share from the profit from 2017.

Company statement of changes in equity

In HRK'000	Issued capital	Share premium	Other reserve	Accumulated earnings	Total
Balance as at 1 January 2019	102,574	1,142,742	572,919	132,428	1,950,663
Profit/(loss) for the year	-	-	-	124,460	124,460
Other comprehensive income	-	-	22	-	22
Total comprehensive income	-	-	22	124,460	124,482
Dividend distribution	-	-	-	(25,643)	(25,643)
Treasury shares	-	-	(16,331)	-	(16,331)
Balance as at 31 December 2019	102,574	1,142,742	556,610	231,245	2,033,171
Profit/(loss) for the year	-	-	-	(103,172)	(103,172)
Other comprehensive income	-	-	3	-	3
Total comprehensive income	-	-	3	(103,172)	(103,169)
Share based payments	-	-	1,353	-	1,353
Treasury shares	-	-	(537)	-	(537)
Balance as at 31 December 2020	102,574	1,142,742	557,429	128,073	1,930,818

The accompanying accounting policies and notes are an integral part of these financial statements.

Consolidated and company statement of cash flows

		Year ended 31 December			
		Group		Company	
	Note	**2020 HRK' 000**	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Cash flows from operating activities:					
Profit for the year		**(227,283)**	148,976	**(103,172)**	124,461
Adjustment to reconcile profit to cash provided by operating activities:					
Interest expenses		**29,321**	28,194	**15,946**	14,768
Interest revenue		**(836)**	(849)	**(5,151)**	(5,780)
Unrealised foreign exchange gains/(losses)		**23,843**	1,351	**3,304**	876
Income tax (benefit)/charge	23	**(4,974)**	(40,205)	**(5,106)**	(46,325)
Share in results of joint ventures		**7,002**	(1,509)	-	-
Movements in provisions		**4,038**	5,521	**4,038**	5,521
Gain on disposal of property, plant and equipment		**(1,430)**	(1,407)	**(1,430)**	(1,407)
Release of provision for legal cases		-	(8,507)	-	(8,507)
Depreciation, amortisation and impairment	4/5/15	**131,955**	99,499	**69,847**	61,436
Disposal of property, plant and equipment		**14,713**	532	**13,292**	532
Share-based payments		**1,353**	-	**1,353**	-
		204,985	82,620	**96,093**	21,114
Changes in operating assets and liabilities:					
Decrease/(increase) in inventories		**(2,969)**	(399)	**(3,384)**	(458)
Decrease/(increase) in trade and other receivables		**2,997**	(2,813)	**591**	(1,313)
Increase/(decrease) in trade and other payables		**(20,544)**	(4,964)	**(13,343)**	2,514
		(20,516)	(8,176)	**(16,136)**	743

The accompanying accounting policies and notes are an integral part of these financial statements.

		Year ended 31 December			
		Group		Company	
	Note	**2020 HRK' 000**	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Cash paid and received during the period for:					
Interest paid		**(27,417)**	(27,216)	**(17,122)**	(13,992)
Interest received		**29**	38	**26**	8,298
Taxes received		**3,134**	11,774	**3,134**	11,774
Taxes paid		**(7,424)**	(11,336)	-	(5,478)
Payments based on settlement in legal cases		-	(23,513)	-	(23,513)
		(31,678)	(50,253)	**(13,962)**	(22,911)
Net cash provided by operating activities		**(74,492)**	173,167	**(37,177)**	123,407
Cash flows from investing activities:					
Investments in property, plant and equipment		**(229,403)**	(233,159)	**(223,256)**	(227,716)
Loans to related party		-	-	**(5,206)**	-
Cash received from disposal		**2,687**	2,527	**2,687**	2,527
Proceeds from given group loans		-	-	-	9,201
Loans to joint ventures		**(6,193)**	-	-	-
Decrease/ (increase) in restricted and rent deposits		**(942)**	(3)	**(942)**	-
Investment in subsidiary		-	-	**(17,330)**	-
Acquisition of a subsidiary, net of cash acquired		**(44,942)**	-	-	-
Property tax from Sugarhill transaction		-	4,372	-	4,319
Net cash used in investing activities		**(278,793)**	(226,263)	**(244,047)**	(211,669)
Cash flows from financing activities:					
Proceeds from bank borrowings		**125,001**	79,499	**93,506**	79,499
Dividend payment		-	(25,643)	-	(25,643)
Payment of principal portion of lease liabilities		**(16,325)**	(19,041)	-	-
Repayment of bank borrowings		**(45,845)**	(48,381)	**(37,938)**	(34,577)
Purchase of treasury shares		**(537)**	(16,331)	**(537)**	(16,331)
Net cash provided by financing activities		**62,294**	(29,897)	**55,031**	2,948
(Decrease)/increase in cash and cash equivalents		**(290,991)**	(82,993)	**(226,193)**	(85,314)
Net foreign exchange differences		**(2,287)**	(630)	-	-
Cash and cash equivalents at beginning of year		**718,891**	802,514	**597,071**	682,385
Cash and cash equivalents at end of year		**425,613**	718,891	**370,878**	597,071
Non-cash items:					
Outstanding payable on investments in property, plant and equipment		9,590	11,000	9,590	11,000

The accompanying accounting policies and notes are an integral part of these financial statements.

FINANCIAL STATEMENTS

Notes to the financial statements

NOTE 1 GENERAL

a. The financial statements of Arena Hospitality Group d.d. (the Company) and its subsidiaries (together the Group) for the year ended 31 December 2020 were established by a decision of the Management Board dated 24 February 2021. Following approval by the Supervisory Board, the financial statements are considered approved according to Article 300d of the Croatian Companies Act.

The Company is a subsidiary of PPHE Hotel Group Limited, a Guernsey incorporated company listed on the FTSE Market of the London Stock Exchange (PPHE Hotel Group) which (indirectly) owns 52.95% of the registered share capital in the Company.

The financial statements of the Group are included in the financial statements of PPHE Hotel Group.

b. Description of business and formation of the Company:

The Company is a joint stock company listed on the Prime Market of the Zagreb Stock Exchange with its registered office in Pula, Republic of Croatia. In accordance with the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned company into a joint stock company in 1994 and registered with the Commercial Court in Rijeka.

The business of the Group is owning, co-owning, leasing and operating full–service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centres, such as Berlin, Cologne and Nuremberg in Germany, Budapest in Hungary, Belgrade in Serbia as well as hotels self-catering apartment complexes and campsites in destinations such as in the city of Pula, the largest city in Croatia's Istria region or Medulin.

c. Assessment of going concern and liquidity:

From January 2020, COVID-19 began to spread from China to many countries across the world. The World Health Organization declared the outbreak of the virus a pandemic in March 2020. Governments and authorities across the globe took various measures to mitigate the spread of the virus, primarily by enforcing partial or complete population 'lockdowns', closing geographical borders, temporarily closing businesses and imposing social distancing.

As a result of these measures, the Group's and the Company's operations were significantly impacted. In response, the Group and the Company took swift action to mitigate the impact of the pandemic, including preserving cash by reducing costs and overheads. Amongst others, the Group and the Company have taken the following actions:

Cash flow measures

- Utilisation of the government support schemes available to the business across its markets; the Kurzarbeit scheme in Germany and the Job Preservation scheme in Croatia. Together, these schemes provided the Group with approximately HRK 48.6 million of support in the period which was recorded as an offset from operating expense in the income statement.
- Waived concessions during 2020 in the total amount of HRK 1.5 million.
- Write off of liabilities arising from taxes and contributions linked to the decrease in revenue in Croatia during the spring lockdown in the total amount of HRK 3.6 million.
- Ongoing restructuring programme to ensure the Group's operational structure is fit for purpose and is aligned with guest demand for the short and medium term.
- Temporary salary cuts between 15% and 20%.
- Reviewed and reprioritised capex requirements for development pipeline.
- Deferred principal loan amortisations for 2020 in Germany at an aggregated amount of HRK 6.4 million.
- Reviewed and reprioritised all areas of discretionary spend, reducing this to business-critical investments only.
- Temporary halt of lease rental payments outside Croatia and currently negotiating new terms and payment schedules.

Liquidity

Financial covenant testing of existing facilities have been waived or postponed where appropriate, for more details please refer to Note 14.

Despite the impact of COVID-19 on trading cash flows, the Group continues to hold a strong liquidity position with an overall cash balance of HRK 425.6 million as at 31 December 2020 and undrawn cash facilities of approximately HRK 180.0 million.

The Management Board has considered detailed cash flow projections for the short to medium term with a recovery to 2019 levels conservatively estimated for 2023. This assumes the Group complies with its covenants. Based on this the Management Board has determined that the Group is likely to continue in business for at least 12 months from the date of approval of the financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The financial statements of the Group and the Company have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The financial statements are presented in Croatian Kuna and all values are rounded to the nearest thousand except where indicated otherwise.

Statement of compliance:

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRIC) and adopted by the European Union.

The accounting policies used in preparing the financial statements for the years ended 31 December 2020 and 31 December 2019 are set out below. These accounting policies have been consistently applied to the periods presented, except where otherwise indicated.

b. Basis of consolidation

The Consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group and the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-Group balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full. Subsidies are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

c. Significant accounting judgments, estimates and assumptions

The preparation of the Group's and Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Group's and the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Acquisition of companies that are not business combinations

At the acquisition date of companies and groups of assets, the Group and the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired, the Company evaluates whether the acquired integrated set of activities and assets include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The following criteria which indicate acquisition of a business are considered: the variety of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property.

Estimates and assumptions

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group and the Company for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group and the Company bases its assumptions and estimates on parameters available when the financial statements are prepared. However, these parameters may change due to market changes or other circumstances beyond the control of the Group and Company. Such changes are reflected in the assumptions and estimates when they occur.

Deferred tax assets

Deferred tax assets are recognised for unused carry forward tax losses, unused tax incentives and other temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 23.

Other critical estimates and assumptions which relates to impairment of property, plant and equipment, and estimate of the useful life of the assets are described in Notes "j" and "k".

d. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group and the Company elects whether to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group and the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the income statement in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group and the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

e. Business combinations involving entities under common control

The Group and the Company accounts for business combinations that include entities under common control using the acquisition method provided that the transaction has substance.

f. Investment in associates and joint ventures

An associate is an entity over which the Group and the Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's and the Company's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's and the Company's share of net assets of the associate or joint venture. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the joint ventures. The Group's and the Company's share of changes in other comprehensive income of the joint venture is recognised in the statement of comprehensive income. Where there has been a change recognised directly in the equity of the joint venture, the Group and the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the Company and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's and the Company's share of profit or loss of a joint venture is shown on the face of the income statement outside EBIT and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint ventures are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group and the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group and the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group and the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share in result of associate and joint ventures' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group and the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

g. Investments in subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, has an interest of more than one half

of the voting rights or otherwise has power to govern the financial and operating policies. The Company has subsidiaries, disclosed in the Appendix to this report, which are accounted at cost less impairment.

h. Foreign currency translation

The functional currency of the Company is the Croatian Kuna. The financial statements are also presented in Croatian Kuna (HRK). Transactions in foreign currencies are initially recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

On consolidation, the assets and liabilities of the entities whose functional currency is other than the Kuna are translated at the exchange rate prevailing on the reporting date. Income and expense items are translated at the average exchange rate for the period. Equity items are translated at the historical exchange rate. Exchange differences arising on the translation are recognised in other comprehensive income and classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement for the period in which the entity is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The following exchange rates in relation to the Kuna were prevailing at the indicated reporting dates:

	As at 31 December	
	2020 In HRK	2019 In HRK
Euro	**7.54**	7.44
Hungarian Forint (100)	**2.06**	2.25
Serbian dinar	**15.60**	N/A

Percentage increase (decrease) in exchange rates during the year:

	As at 31 December	
	2020 %	2019 %
Euro	**1.3**	0.3
Hungarian Forint (100)	**(8.4)**	(2.6)
Serbian dinar	**N/A**	N/A

i. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets is recognised in the income statement.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the income statement when the asset is derecognised.

j. Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method over the shorter of the estimated useful life of the assets or the lease term as follows:

	Years
Hotel buildings	20 to 60
Furniture and equipment	4 to 10

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and

equipment, and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted if appropriate.

k. Impairment of non-financial assets

At each reporting date, the Group and the Company review the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

l. Financial instruments

i) Financial assets:
Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and Company's business model for managing them. The Group and the Company have applied the practical expedient, the Group and Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

The Group and the Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's and Company's financial assets at amortised cost include trade receivables and loans to Joint Ventures.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets that are debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and listed equity. Dividends on listed equity investments are recognised as other income in the income statement when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's and Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group or the Company has transferred substantially all the risks and rewards of the asset, or (b) the Group or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the "asset".

When the Group or the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group or the Company could be required to repay.

Impairment of financial assets

The Group and the Company recognises an allowance for expected credit loss (ECL) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group and the Company applies a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group and the Company may also considers a financial asset to be in default when internal or external information indicates that the Group or the Company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities
Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss measured at amortised cost (loans and borrowings and payables), or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's and Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group and the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as financial expenses in the income statement.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

m. Inventories

Inventories, including food, beverages and crockery are valued at the lower of cost and net realisable value. Cost includes purchase cost on a weighted average basis. Purchase of small equipment during renovation, which has an economic life longer than one year is presented as non-current assets and is depreciated over its economic life and recorded in operating expenses. Such small equipment includes sheets, towels, cutlery, trays, pillows and similar items.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

n. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

o. Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group and the Company have elected to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The Group and the Company uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group and the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument in a cash flow hedge is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

q. Revenue from contracts with customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. IFRS 15 also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group and the Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Group and the Company elected to apply IFRS 15 only to contracts that were not completed at this date. The adoption of IFRS 15 did not have a material effect on the financial statements.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group and the Company expects to be entitled in exchange for those goods or services. The Group and the Company have generally concluded that this is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Owned and leased hotels

Revenues are primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

Customer loyalty programme

The Group and the Company participate in the Radisson RewardsTM customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Radisson Hotel Group ("RHG") and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the award credits granted. Customers are entitled to utilise the awards as soon as they have been granted.

The Group and Company purchase these award credits from RHG and issue them to its customers in order to enhance customer relationships rather than to earn a margin from the sale of these award credits. The Group and the Company concluded that they are acting as principal in such transactions and, in substance, is earning revenue from supplying these awards to its customers. The Group and Company measure these revenues at fair value and recognise these gross from the costs of participating in the programme.

Contract balances
Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group and the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's and the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group and the Company have received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group and the Company transfers goods or services to the customer, a contract liability (advance payments received) is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group and the Company performs under the contract.

r. Key performance indicators

EBITDAR

Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses, concession fees of land, share of associate and exceptional items presented as other income and expense (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key performance indicator.

EBITDA

Earnings before interest, tax, depreciation and amortisation, impairment loss, exceptional items presented as other income and expense (EBITDA) correspond to gross profit after the operating costs of holding leased hotels and campsites under concession.

EBIT

Earnings before interest, tax and exceptional items presented as other income and expense (EBIT) correspond to gross operating profit after the operating costs of holding both leased and owned assets.

Other income and expenses

Other income and expenses relate to income and expenses which do not directly relate to the operating cost of the owned or leased assets, for example negative goodwill or expenses for legal restructuring of the Group and the Company, legal or financial advices, pre-opening expenses etc.

s. Leases

The Group and the Company accounts for a contract as a lease when the contract terms convey the right to convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group and the Company as lessee

The Group and the Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and the Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Interest rates on lease liabilities are in range between 1.95% and 2%.

Right-of-use assets

The Group and the Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Hotel buildings	7 to 45
Offices	5 to 6

If ownership of the leased asset transfers to the Group or the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (k) Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group and the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group or the Company and payments of penalties for terminating the lease, if the lease term reflects the Group or the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as rent expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group and the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Variable lease payments that depend on an index:

On the commencement date, the Group and Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Group or the Company are the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

Variable lease payments:

Variable lease payments that do not depend on an index or interest rate but are based on performance or usage are recognized as an expense as incurred when the Group or the Company is the lessee, and are recognized as income as earned when the Company is the lessor.

Lease extension and termination options:

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised. In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations.

The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgment in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group and the Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

t. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as deduction in reporting from the related expense, for which it is intended to compensate. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

u. Employee benefits

Share-based payments

Employees (including Management Board) of the Company and the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense (Note 19), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

v. Provisions

Provisions are recognised when the Group or the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group or the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

w. Borrowing costs for qualifying assets

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

z. Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the income statement.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

(i) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Investment tax credit

Investment tax credit are incentives arising from government incentives scheme which enable the Group and the Company to reduce their income tax liability in current and future periods, and are linked to construction and acquisition of certain assets and/or performance of certain activities and/or fulfilment of certain specific condition prescribed in relevant regulation for investment incentives by the relevant authorities.

Tax credit is not recognised until the conditions required to receive the credit are met. Tax credit are recognised in current tax in the year in which they are claimed on the Company's tax return. Tax credits that are unused are recognised as deferred tax assets to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

ab. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

ac. Changes in accounting policies and disclosures

The Group and the Company applied

for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Group or the Company. The Group and the Company have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Group or the Company, but may impact future periods should the Group and the Company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no significant impact on the financial statements of the Group or the Company.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of the Group or the Company.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Group or the Company.

ad. Standards issued but not yet applied

Standards issued but not yet effective, or subject to adoption by the European Union, up to the date of issuance of the financial statements are listed below. This listing of standards issued are those that the Group and the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group and the Company intends to adopt these standards when they become mandatory.

The following standards have been issued by the IASB and are not yet effective or are subject to adoption by the European Union:

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group and the Company are currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendment to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after beginning of the earliest period presented when the Group and the Company first applies the amendment. The amendment is not expected to have a material impact on the Group or the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group or the Company.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group or the Company.

NOTE 3 SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

Acquisition of Arena 88 rooms d.o.o. in Belgrade

On 29 December 2020 the Group acquired 100% of shares in Arena 88 rooms d.o.o. in Belgrade. This acquisition is in line with our strategy to expand the business through the Central Eastern European ("CEE") region and allows the Group to increase its operations across cities in Europe aiming at maintaining and increasing its profile in the upscale, upper upscale and lifestyle market segments in the CEE region. Operations in city hotels in CEE region will reduce seasonality effects on our business.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Arena 88 rooms d.o.o. as at the date of acquisition were:

	Fair value recognised on acquisition HRK'000
Asset	
Property, plant and equipment	44,707
LT Inventories	71
Intangible fixed assets	132
Inventories	65
Receivables and other current assets	158
Net trade accounts receivable	19
	45,152
Liabilities	
Trade and other payables	(210)
	(210)
Total identifiable net assets at fair value	44,942
Purchase consideration transferred	**44,942**

Professional valuator has been used to determine value of Property, plant and equipment, while all other assets and liabilities represent its book value since there were no significant difference between book and fair value.

The Acquisition was recorded as of 31 December 2020 and therefore did not make a contribution to the Group's revenue and profit in 2020.

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings HRK'000	Furniture, fittings and equipment HRK'000	Property and assets under construction HRK'000	Total HRK'000
Cost:				
Balance as at 1 January 2019	2,592,643	321,595	46,416	2,960,654
Additions during the year	160,956	27,101	52,963	241,020
Transfers	25,037	-	(25,037)	-
Exchange rate differences	(2,275)	(15,649)	-	(17,924)
Disposals during the year	2,037	(157)	4	1,884
Balance as at 31 December 2019	2,778,398	332,890	74,346	3,185,634
Accumulated depreciation and impairment:				
Balance as at 1 January 2019	926,167	184,728	-	1,110,895
Provision for depreciation	52,723	26,022	-	78,745
Disposals during the year	(1,047)	(15,232)	-	(16,279)
Exchange rate differences	79	(148)	-	(69)
Balance as at 31 December 2019	977,922	195,370	-	1,173,292
Net book value as at 31 December 2019	1,800,476	137,520	74,346	2,012,342
Cost:				
Balance as at 1 January 2020	2,778,398	332,890	74,346	3,185,634
Additions during the year	69,550	41,724	115,356	226,630
Acquisitions through subsidiaries	42,831	1,876	-	44,707
Transfers	40,525	4,350	(44,875)	-
Disposals during the year	(25,965)	(17,490)	(402)	(43,857)
Exchange rate differences	7,682	(505)	15	7,192
Balance as at 31 December 2020	2,913,021	362,845	144,440	3,420,306
Accumulated depreciation and impairment:				
Balance as at 1 January 2020	977,922	195,370	-	1,173,292
Provision for depreciation	58,539	28,949	-	87,488
Disposals during the year	(13,115)	(15,354)	-	(28,469)
Exchange rate differences	297	(588)	-	(291)
Balance as at 31 December 2020	1,023,643	208,377	-	1,232,020
Net book value as at 31 December 2020	1,889,378	154,468	144,440	2,188,286

a. There was no capitalisation of borrowing costs in 2020 or 2019.
b. For information regarding liens, see Note 13.

Impairment

The recoverable amount of property, plant and equipment was determined based on the third party valuations received for 31 December 2020. The projections in the valuations are based on financial budgets for 2021 approved by the management, and expectation of the valuator for period the after 2021. The discount rates applied to cash flow projections was determined by the third party valuator and ranges between 9%-11%. Determined values of the properties were higher than net book value of all individual properties resulting with no impairment during the year.

Company	Land and buildings HRK'000	Furniture, fittings and equipment HRK'000	Property and assets under construction HRK'000	Total HRK'000
Cost:				
Balance as at 1 January 2019	1,988,353	236,088	46,020	2,270,461
Additions during the year	160,956	22,613	52,013	235,582
Transfer	25,037	-	(25,037)	-
Disposals during the year	(2,275)	(15,634)	-	(17,909)
Balance as at 31 December 2019	2,172,071	243,067	72,996	2,488,134
Accumulated depreciation and impairment:				
Balance as at 1 January 2019	910,635	156,665	-	1,067,300
Provision for depreciation	45,128	15,850	-	60,978
Disposals during the year	(1,046)	(15,212)	-	(16,258)
Balance as at 31 December 2019	954,717	157,303	-	1,112,020
Net book value as at 31 December 2019	1,217,354	85,764	72,996	1,376,114
Cost:				
Balance as at 1 January 2020	2,172,071	243,067	72,996	2,488,134
Additions during the year	69,550	39,514	112,094	221,158
Transfer	40,525	4,350	(44,875)	-
Disposals during the year	(25,639)	(17,217)	-	(42,856)
Balance as at 31 December 2020	2,256,507	269,714	140,215	2,666,436
Accumulated depreciation and impairment:				
Balance as at 1 January 2020	954,717	157,303	-	1,112,020
Provision for depreciation	50,823	18,545	-	69,368
Disposals during the year	(13,115)	(15,192)	-	(28,307)
Balance as at 31 December 2020	992,425	160,656	-	1,153,081
Net book value as at 31 December 2020	1,264,082	109,058	140,215	1,513,355

a. There was no capitalisation of borrowing costs in 2020 or 2019.
b. For information regarding liens, see Note 13.

Impairment

The recoverable amount of property, plant and equipment was determined based on the third party valuations received for 31 December 2020. The projections in the valuations are based on financial budgets for 2021 approved by the management, and expectation of the valuator for period the after 2021. The discount rates applied to cash flow projections was determined by the third party valuator and ranges between 9%-11%. Determined values of the properties were higher than net book value of all individual properties resulting with no impairment during the year.

NOTE 5 INTANGIBLE ASSETS

Group	Software and licences HRK'000	Total HRK'000
Cost:		
Balance as at 1 January 2019	7,902	7,902
Additions during the year	711	711
Balance as at 31 December 2019	8,613	8,613
Accumulated amortisation:		
Balance as at 1 January 2019	7,090	7,090
Provision for amortisation	458	458
Balance as at 31 December 2019	7,548	7,548
Net book value as at 31 December 2019	1,065	1,065
Cost:		
Balance as at 1 January 2020	8,613	8,613
Additions during the year	690	690
Acquisitions through subsidiaries	131	131
Disposals during the year	(48)	(48)
Balance as at 31 December 2020	9,386	9,386
Accumulated amortisation:		
Balance as at 1 January 2020	7,548	7,548
Provision for amortisation	479	479
Disposals during the year	(48)	(48)
Balance as at 31 December 2020	7,979	7,979
Net book value as at 31 December 2020	1,407	1,407

Company	Software and licences HRK'000	Total HRK'000
Cost:		
Balance as at 1 January 2019	7,902	7,902
Additions during the year	711	711
Disposals during the year	-	-
Balance as at 31 December 2019	8,613	8,613
Accumulated amortisation:		
Balance as at 1 January 2019	7,090	7,090
Provision for amortisation	458	458
Balance as at 31 December 2019	7,548	7,548
Net book value as at 31 December 2019	1,065	1,065
Cost:		
Balance as at 1 January 2020	8,613	8,613
Additions during the year	690	690
Disposals during the year	(48)	(48)
Balance as at 31 December 2020	9,255	9,255
Accumulated amortisation:		
Balance as at 1 January 2020	7,548	7,548
Provision for amortisation	479	479
Disposals during the year	(48)	(48)
Balance as at 31 December 2020	7,979	7,979
Net book value as at 31 December 2020	1,276	1,276

NOTE 6 INTEREST IN JOINT VENTURES

For a list of jointly controlled entities, please see the appendices.

	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Loan to joint ventures*	**39,829**	35,111	–	–
Share of net assets under equity method	-	3,607	–	–
Interest in joint ventures	**39,829**	38,718	–	–

* €4.8 million of the loan is denominated in Euro and bears an interest rate of LIBOR +2.5% per annum. This loan is due for repayment on 7 June 2023 in full (bullet). The increase during 2020 is the result of new loan given to fund operations.

NOTE 7 OTHER NON-CURRENT FINANCIAL ASSETS

	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Rent deposit	**3,109**	3,070	-	-
Long term receivables	-	177	-	177
Investment in Sugarhill Investments B.V.	-	-	**524,141**	524,141
Loan to Germany Real Estate B.V.	-	-	**144,605**	142,795
Loan to Sugarhill Investments B.V.	-	-	**5,276**	-
Investment in Ulika d.o.o.	-	-	**17,393**	63
Investment in Mazurana d.o.o.	-	-	**30**	30
Investment in Germany Real Estate B.V.	-	-	**0**	0
	3,109	3,247	**691,445**	667,206

NOTE 8 TRADE RECEIVABLES

a. Composition

	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Trade receivables	**11,580**	17,579	**5,993**	8,122
Less – allowance for doubtful debts	**(3,279)**	(2,841)	**(3,274)**	(2,802)
	8,301	14,738	**2,719**	5,320

b. Movements in the allowance for doubtful accounts were as follows

	Group	Company
	HRK' 000	HRK' 000
As at 31 December 2019	2,841	2,802
Additions	438	472
As at 31 December 2020	3,279	3,274

c. As at 31 December, the ageing analysis of unimpaired trade receivables is as follows

		Past due				
Group	Total HRK'000	Undue HRK'000	<30 days HRK'000	30 to 60 daysl HRK'000	60 to 90 days HRK'000	>90 days HRK'000
2020	8,301	3,519	1,122	440	372	2,848
2019	14,738	6,366	4,938	1,276	438	1,720

		Past due				
Company	Total HRK'000	Undue HRK'000	<30 days HRK'000	30 to 60 daysl HRK'000	60 to 90 days HRK'000	>90 days HRK'000
2020	2,719	1,817	56	132	242	472
2019	5,320	3,791	1,181	4	19	325

NOTE 9 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Prepaid expenses	**5,115**	4,603	**1,807**	1,489
Receivable for grants, VAT and other taxes	**4,408**	3,122	**2,869**	2,544
Receivable from related parties	**794**	31	**8,006**	1,337
Other	**2,703**	1,159	-	-
	13,020	8,915	**12,682**	5,370

NOTE 10 CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short term deposit rates.

NOTE 11 EQUITY

a. Share capital:

As at 31 December 2020, the Company's share capital amounted to HRK 102,574,000 (2019: HRK: 102,574,000) and was divided into 5,128,721 (2019: 5,128,721) ordinary shares without a nominal value.

b. Hedging reserve

This reserve is comprised of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

c. Nature and purpose of reserves:

Other reserves

The other reserves mainly consist of results of transactions that affected the equity of the Company with regard to acquisition of subsidiaries from related companies and the change in fair value of the available-for-sale financial assets.

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until the total reserves together with the share premium reach 5% of the Company's share capital. This reserve is not distributable. As at 31 December 2020, legal reserves amounted to HRK 5,1 million (2019: HRK 5,1 million).

As at 31 December 2020, the consolidated other reserves amounting to HRK 317.0 million (2019: HRK 314.0 million) consisted of:

(i) Capital reserves of HRK 623.9 million (2019: 624..4 million).
(ii) Revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 130,305 (2019: HRK 127,020).
(iii) Legal reserves amounting to HRK 5.1 million (2019.: 5.1 million).
(iv) Other capital reserves which amount to HRK 329.4 million (2019: 329.4 million) negative with regard to the difference between the acquisition price and the net asset value of Sugarhill Investments B.V. at time of acquisition.
(v) Other reserves constitutes the difference between the purchase price of the Bora Companies and the net asset value of the Bora Companies. The negative goodwill realised on the purchase of HRK 23.0 million was directly recognised in other reserves.
(vi) Negative exchange rate differences in the amount of HRK 1.9 million (2019: 4.1 million).
(vii) Treasury shares amounting to HRK 16.9 million negative (2019: 16.3 million negative).
(viii) Reserves for treasury shares amounting to HRK 16.9 million (2019: 16.3 million). These reserves are formed from Capital reserves.

As at 31 December 2020, the Company's other reserves amounting to HRK 557.4 million (2019: HRK 556.6 million) consisted of:

(i) Other capital reserves amounting to HRK 527.8 million (2019: HRK 528.4 million). These reserve are distributable.
(ii) Other reserves for the difference between the purchase price of the Bora Companies and the net asset value of the Bora Companies. The difference realised on the purchase of HRK 23.0 million has been directly recognised in other reserves.
(iii) Revaluation reserves formed from unrealised fair value gains on available-

for-sale financial assets of HRK 130,305 (2019: HRK 127,020)
(iv) Treasury shares amounting to HRK 16.9 million negative (2019: 16.3 million negative).
(v) Reserves for treasury shares amounting to HRK 16.9 million (2019: 16.3 million). These reserves are formed from Other capital reserves.
(vi) Reserves for share option amounting to HRK 1.4 million.

NOTE 12 SHARE-BASED PAYMENTS

During 2020, the Company established a share award plan within the framework of employees' reward program. The Company's Supervisory Board met in January 2020 to consider option packages of Management Board members to ensure that they are properly incentivised in the future. In March 2020, the Supervisory Board based on Award decision agreed to grant a total of 18,240 shares to the Management Board members at Nil Option price at the exercise of the option. The Vesting date is 4 years from the decision date in one tranche. The Company shall bear the Award tax liability.

The expense arising from equity-settled share-based payment transactions during 2020 was HRK 1.4 million. Fair value of the option was determined based on the market price of the shares at grant date.

NOTE 13 PLEDGES, CONTINGENT LIABILITIES AND COMMITMENTS

a. Pledges, collateral and securities:

All bank borrowings are secured by a mortgage over Group properties with a net carrying amount of HRK 1,327,751 thousand (2019: 1,283,045 thousand).

b. Commitments:

(i) Management and franchise agreements

1. In December 2016, the Company's operating agreements for its Croatian properties and those properties in Germany and Hungary that comprised the Sugarhill contribution were amended, restated and novated in order to create two separate agreements:

a. an operating agreement with Arena Hospitality Management d.o.o., which is part of the Group, under which each property pays an annual base fee calculated as a percentage of total revenue of the property and an annual incentive fee calculated as a percentage of adjusted gross operating profit. The fee revenues generated from properties within the Group are, as the corresponding expenses, eliminated upon consolidation. These agreements are for terms of between 15 and 30 years; and

b. a licence, sales and marketing agreement with a member of the PPHE Hotel Group (as licensor) under which each property pays an annual fee calculated as a percentage of total revenue for, among others, certain Group services. The term of such agreement follows that of the amended operating agreements.

2. Additionally, as of December 2016, through the acquisition of Sugarhill Investmenst B.V. and the restructuring of the Group, the Group benefits from an exclusive right to operate hotels under the Plark Plaza® brand in 18 Countries throughout the CEE region for a period of 30 years.

(ii) Capital and development commitments

As at 31 December 2020, the Company had capital commitments amounting to HRK 120.0 million for the renovation of the hotel Brioni.

Guarantees:

The Group, through its subsidiaries ACO Hotel Holding B.V. and ABK Hotel Holding B.V., has an outstanding loan facility with Deutsche Hypothekenbank AG ("Deutsche Hypo") for an aggregate principal amount of EUR 38 million. This facility includes a guarantee issued by PPHE Hotel Group up to the lower of EUR 19 million or 50% of the outstanding debt under the loan. The Company has provided a back-to-back guarantee to PPHE Hotel Group effective as of 1 January 2018.

The Group through its joint ventures ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. has an outstanding loan facility with Deutsche Hypo AG for an aggregate principal amount of EUR 11.5 million. This facility includes a guarantee issued by PPHE Hotel Group for the full outstanding debt under the loan. The Company has provided a back-to-back guarantee to PPHE Hotel Group as of 1 January 2018.

c. Contingent liabilities

Tehnoekologija d.o.o. in bankruptcy (hereinafter: TE or the plaintiff) initiated in 2013 a litigation procedure before the Commercial Court in Rijeka as 1st instance court against Company and the Republic of Croatia for the compensation of the investments the plaintiff supposedly had made in the campsite Kažela, Medulin. The amount of compensation the plaintiff asks from the court to be ordered to be compensated is currently set at HRK 45 million. The case is at the moment of preparation of this assessment again pending before the 1st instance court after sending the previously reached 1st instance decision back by the appeal court in 2019. This litigation case is associated with a complex background and historically long period of interconnected relationships between the plaintiff, the Republic of Croatia and the Company. The duration of the case itself (since 2013) is also a specific issue. Taking into consideration such complexity, it is not possible to give a reliable estimate on the outcome of this case in general as well as of the amount of potential obligation that the Company might face if the final decision of the court would be issued (partially or fully) in favour of the plaintiff.

d. Lease agreements

The Group operates city hotels (in Germany and Hungary) and occupies certain properties under various lease agreements in which the building, fixtures, furniture and equipment are leased. These tend to be long term arrangements under which the Group leases a hotel from a third party property owner for periods of 20 to 25 years and often include options to extend for varying periods. Monthly rental payments are based on a percentage of the operating revenues or gross operating profit of that hotel, subject, in most cases, to a minimum amount which is independent of the operating revenue or gross operating profit. The rental expenses presented in the income statement primarly reflect the variable lease payments.

During 2020 the Group has entered into a 45-year lease agreement for the development and operation of a 115 rooms hotel in Zagreb, Croatia.

NOTE 14 BANK BORROWINGS

The bank borrowings of the Group are comprised as follows:

As at 31 December 2020 Currency	Outstanding amount in HRK'000	Interest rate	Maturity
EUR	836,912	1.95-4.3%	2023-2030
HRK	225,268	1.90-1.95%	2027
	1,062,180		
Accrued interest	6,202		
Capitalised transaction costs	(2,129)		
Total	1,066,253		

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
1,062,180	69,758	64,150	80,264	67,286	82,811	697,911

For securities and pledges, see Note 13.

During 2020 the Group entered into a HRK 180.0 million (EUR 24.0 million) facility, maturing in 2033, with Erste Banka d.d. and Zagrebačka banka d.d. from Croatia to fund the repositioning and development of Hotel Brioni Pula. Furthermore, the Group signed a HRK 75.0 million (EUR 10.0 million) facility agreement with OTP banka d.d. from Croatia, with a maturity of ten years, for the purpose of acquiring and refurbishing hotel Riviera Pula. Lastly, the Group secured HRK 31.5 million (EUR 4.2 million) of financing, maturing in 2025, with AIK banka a.d. in Serbia for the purpose of acquiring 88 Rooms Hotel in Belgrade.

As at 31 December 2019 Currency	Outstanding amount in HRK'000	Interest rate	Maturity
EUR	780,025	1.95-2.7%	2023-2029
HRK	192,998	1.90-1.95%	2027
	973,023		
Accrued interest	7,094		
Capitalised transaction costs	(1,728)		
Total	978,389		

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
973,023	51,169	51,876	52,222	67,013	48,761	701,982

For securities and pledges, see Note 13.

The bank borrowings of the Company are comprised as follows:

As at 31 December 2020 Currency	Outstanding amount in HRK'000	Interest rate	Maturity
EUR	441,276	1.95-2.4%	2023-2030
HRK	225,268	1.90-1.95%	2027
	666,544		
Accrued interest	6,193		
Capitalised transaction costs	(535)		
Total	672,202		

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
666,544	48,645	48,645	63,300	44,457	44,457	417,040

As at 31 December 2019 Currency	Outstanding amount in HRK'000	Interest rate	Maturity
EUR	412,651	1.95-2.4%	2023-2029
HRK	192,998	1.90-1.95%	2027
	605,649		
Accrued interest	7,094		
Capitalised transaction costs	(259)		
Total	612,484		

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
605,649	37,005	37,593	37,593	52,065	33,458	407,935

For securities and pledges, see Note 13.

Since 2020 was an extraordinary year in which the COVID-19 pandemic has materially disrupted the Group' and the Company's business, the Group and the Company obtained the necessary waivers from its lenders and in this way ensured there was no breach of its regular covenants, which are described below.

a. Under the Zagrebačka Banka d.d joint EUR 32.0 million and HRK 205.0 million facility the borrower must ensure that at year end, based on audited standalone financial statements of the borrower, the DSCR is equal to or greater than 1.2 during the life of the loan and that the ratio of Net Debt/EBITDA ('net leverage ratio') is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan.

b. Under the Zagrebačka Banka d.d EUR 10.0 million and HRK 60.0 million facilities the borrower must ensure that at year end, based on audited consolidated financial statements of the borrower, the DSCR is equal to or greater than 1.2 during the life of the loan and that the net leverage ratio is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan. Moreover, under the HRK 60.0 million facility the amount of the loan cannot exceed 70% of the value of the properties used as collateral.

c. Under the Erste Banka d.d. EUR 5.0 million and EUR 10.2 million facilities, the borrower must ensure throughout the entire term of the loan that the interest coverage ratio ('ICR') is at least 3.0 times EBITDA and net leverage which is equal to or lower than 7.0 at year end 2022 and equal or lower than 4.5 thereafter. The testing of the covenants has to be performed for the first time until end of June 2023 using the audited consolidated financial statements for the immediately preceding financial year.

d. Under the club deal with Erste Banka d.d. and Zagrebačka Banka d.d signed in December 2020 for the purpose of financing the refurbishment of Hotel Brioni Pula in the total amount of EUR 24.0 million the borrower has to comply with the following consolidated covenants, tested once a year using audited financial statements for the preceding year: DSCR 1 is equal to or greater than 3.0 until 2022 and 3.5 from 2023 onwards. DSCR 2 is equal or greater than 1.2 throughout the life of the loan. Net leverage ratio is equal to or lower than 4.5, the testing of which starts for the 2023 financial year end and onwards. The amount of the loan cannot exceed 70% of the property used as collateral. The withdrawal of the loan is also subject to a deposit of up to EUR 7.0 million, which has a release mechanism embedded subject to certain defined conditions. The equity ratio has to be at least 30%. As at year-end 2020 the loan remained undrawn.

c. Under the OTP Banka d.d. loan signed in July 2020 for the purpose of financing the purchase and subsequent refurbishment of Hotel Riviera Pula in the total amount of EUR 10.0 million the borrower has to comply with the following standalone covenants, tested once a year using audited financial statements for the preceding year: net leverage ratio is equal to or lower than 6.0 at year end 2021 and equal to or lower than 4.5 at year end 2022 and onwards. The equity ratio has to be at least 55%. The loan consists of two equal tranches in the amount of EUR 5.0 million each. The loan has a deposit build up mechanism, subject to certain conditions. The Company cannot pay dividend until year-end 2021 (and in line with the contractual limitations for entities that used Government support during the pandemic) and a dividend basket or purchase of treasury shares of HRK 25.0 million until year end 2022. No limitations on profit distribution thereafter. As at year-end 2020 EUR 5.0 million was drawn.

f. Under the Deutsche Hypothekenbank AG facility, for Park Plaza Nuremberg the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 65% of the value of the property used as collateral and that the DSCR is not less than 1.80. The covenants have been waived and the next testing of the covenants is set for year-end 2022.

g. Under the Deutsche Hypothekenbank AG facility for ACO Hotel Holding B.V. and ABK Hotel Holding B.V., the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 70% of the value of the properties used as collateral and that the DSCR is not less than 1.10. The covenants have been waived and the next testing of the covenants is set for year-end 2022.

h. Under the AIK Banka a.d. loan signed in December 2020 for the purpose of financing the purchase of Hotel 88 Rooms in Belgrade, Serbia in the total amount of EUR 4.2 million the borrower (Arena 88 Rooms Holding d.o.o.) has to ensure that the value of the purchased asset is not lower by more than 35% when compared to the value of the asset as defined during 2020 by an external reputable valuator. As at year-end 2020 the loan was fully drawn.

The above mentioned loans in Croatia have an interest rate ranging between 1.9% and 2.6%, whilst those outside of Croatia have an interest rate in the range between 2.1% and 4.3%

For guarantees under the above facility agreements see Note 13.

As at 31 December 2020, the Group and the Company are in compliance with all its banking covenants, except those waived.

NOTE 15 LEASES

a. Right-of-use-assets

The Group leases buildings for its office space and hotels operations. The leases for office space typically lasts for a period of 5 years and lease of hotel building for 20 years.

The Group and the Company elect to use the exemptions permitted by IFRS 16 for leases for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Group	Right-of-use assets HRK'000
Cost:	
First time recognition as of January 1 2019	236,469
Additions during the year	5,443
Disposals during the year	(3,455)
Exchange rate differences	(3,730)
Balance as at 31 December 2019	234,727
Accumulated amortisation:	
Balance as at 1 January 2019	-
Provision for amortisation	20,295
Disposals during the year	(557)
Exchange rate differences	(32)
Balance as at 31 December 2019	19,706
Net book value as at 31 December 2019	215,021
Cost:	
Balance as at 1 January 2020	234,727
Additions during the year	106,856
Disposals during the year	-
Exchange rate differences	(10,778)
Balance as at 31 December 2020	330,805
Accumulated amortisation:	
Balance as at 1 January 2020	19,706
Provision for amortisation	20,645
Impairment loss	23,343
Disposals during the year	-
Exchange rate differences	(729)
Balance as at 31 December 2020	62,965
Net book value as at 31 December 2020	267,840

The amount of borrowing costs capitalised during the year ended 31 December 2020 was HRK 1,718 thousand (2019: Nil).

Impairment

The Group performed impairment test in December 2020 for all individual Right of use asset where indication of impairment loss occurred. Each asset has been tested on Cash Generating Unit level (GCU-level).

Significant decrease in travel and number of guests, significantly deteriorated hotels performance, resulting in recognition of impairment loss in one of the hotels.

The recoverable amount of the hotel (separate CGU) of HRK 38,3 million as at 31 December 2020 has been determined based on a value in use calculation using cash flow projections from financial budgets and projections of five-year period (period of the lease). The discount rate applied to cash flow projections was 8.5%.

It was concluded that the fair value less costs of disposal did not exceed the value in use. As a result of this analysis, management has recognised an impairment charge of HRK 23,343 thousands in the current year.

Impairment loss is recorded within Depreciation, amortisation and impairment expenses in the statement of profit or loss.

b. Lease liability

Set out below are the carrying amounts of lease liabilities and the movements during the period:

Group	Lease liability HRK'000
First time recognition as of January 1 2019	242,151
Additions during the year	5,443
Disposals during the year	(3,484)
Accretion of interest	4,641
Payments	(23,682)
Exchange rate differences	(3,088)
Balance as at 31 December 2019	221,981
Balance as at January 1 2020	221,981
Additions during the year	105,138
Accretion of interest	6,104
Payments	(17,533)
Exchange rate differences	7,740
Balance as at 31 December 2020	323,430

The maturity analysis of lease liabilities are disclosed below:

As at 31 December 2020			Maturity analysis			
Outstanding amount HRK	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**
323,430	37,703	21,847	24,521	24,887	25,168	189,304

As at 31 December 2019			Maturity analysis			
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
221,981	19,626	20,022	20,425	20,837	21,257	119,814

c. Variable lease payments

One lease of a hotel building contains variable lease payments that are based on the sales generated.

There were no payments in 2020 based on variable element of the agreement (2019: HRK 3.7 million).

d. The Company and the Group as a lessor

Part of the Group's and the Company's property, plant and equipment is leased out under operating leases.

The operating leases relate to the lease of shops and restaurants or premises and equipment. During 2020, the Group and the Company realised rental income in the amount of HRK 4.6 million (2019: HRK 9.8 million).

The future aggregate minimum lease payments receivable of the Group and the Company from operating leases based on lease agreements concluded up to 31 December 2020 are as follows:

	As at 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Up to 1 year	**7,266**	8,985	**7,266**	8,985
From 2 to 5 years	**17,781**	18,415	**17,781**	18,415
Over 5 years	**664**	1,253	**664**	1,253
	25,711	28,653	**25,711**	28,653

Due to COVID-19 pandemic, part of rental agreements could be reduced in price especially in 2021.

NOTE 16 PROVISIONS

	As at 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Provision for concessions land	**45,358**	41,319	**45,358**	41,319
Provision for litigation	-	-	-	-
	45,358	41,319	**45,358**	41,319

Movements in the Provisions were as follows

	As at 31 December	
	Group	Company
	2020 HRK' 000	2020 HRK' 000
As at 31 December 2019	**41,319**	**41,319**
Additions	**4,039**	**4,039**
Used	-	-
Reversed	-	-
As at 31 December 2020	**45,358**	**45,358**

Tourist land provisions and obligations

In accordance with the provisions of the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process Act from 2010 (the 'TLA'), the Company submitted requests to the Republic of Croatia and the relevant municipality for the award of tourist land concessions in relation to land areas in eight campsites and three tourist resorts in Croatia. The TLA failed to produce the desired impact and to resolve the issues of the ownership / use of the tourist land. This in turn caused far reaching consequences in the form of lack of investments into tourist land, reduced international competitiveness of Croatian tourism due to lack of development and reduced income of the state and local municipalities. The Croatian government therefore adopted a new legislation to deal with, inter alia, the so-called tourist land and proprietary relationships between the owner of such land and the owner of the facilities built thereon. In May 2020, the new Non-Appraised Construction Land Act (the "NCLA") replaced the TLA and all initiated requests based on the TLA were suspended. Pursuant to the NCLA, the ownership of the land underneath the facilities in the campsites that were assessed into the share capital of the Company is now also legally recognized as ownership of the Company, while the Republic of Croatia will be the sole owner of the other land in the camps. In respect to the tourist resorts, the ownership of the land underneath the facilities that have been assessed into the share capital of the Company is now also recognized as ownership of the Company, together with the land surrounding such facilities that makes (together with the relevant facilities) the technological and functional unity. Tourist land in the tourist resorts which was not assessed into the share capital of the Company and which serves the standard usage of the resorts shall be owned by a local municipality. In relation to the land in campsites owned by the Republic of Croatia and the land in tourist reports owned by the local municipalities, the Company will ex lege be deemed long-term (50 years) lessee and will conclude the lease agreement with the state / local municipalities once the procedure envisaged by the NCLA will be complete. However, the Government has still not adopted the secondary level regulation that would govern the rent payable by the lessees for such lease nor have the procedures required for the implementation of the Act and actual registration of the ownership over the respective part of land in campsites / tourist resorts been completed. This creates uncertainties in relation to the current and future assets and obligations of the Company. While the TLA was still applicable, the Company paid 50% of the concession fees in respect of the eight campsites and accrued the remaining 50% until entering into the envisaged concession agreements. As the new NCLA has not yet set the rules for the rent payable based on the lease agreement, the Company kept the same accrual and provisioning model. The provisions are visible in the Company's balance sheet.

NOTE 17 OTHER PAYABLES AND ACCRUALS

	As at 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	2020 HRK' 000	2019 HRK' 000
Received advances	**9,492**	13,984	**4,523**	4,796
Employees	**7,798**	15,943	**7,141**	12,624
Accrued fee for the tourist land concession	**5,227**	3,547	**5,227**	3,547
Accrued expenses	**4,022**	6,793	**765**	1,541
VAT and taxes	**978**	6,230	**650**	4,762
Other	**572**	462	**325**	361
	28,089	46,959	**18,631**	27,631

NOTE 18 REVENUES

	As at 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Accommodation	**192,399**	637,693	**134,645**	432,470
Food and beverages	**25,494**	103,581	**15,191**	66,584
Minor operating revenues*	**15,226**	26,990	**13,218**	19,017
Rent revenue	**5,195**	9,840	**4,631**	9,805
	238,314	778,104	**167,685**	527,876

* Minor operating revenue consists of various hospitality services provided, such as rent of sun loungers and umbrellas, foreign exchange fees, certain wellness services and sport activities.

NOTE 19 OPERATING EXPENSES

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Salaries and related expenses	**113,237**	250,835	**69,223**	166,765
Utilities	**22,154**	35,536	**14,467**	25,632
Franchise fees, reservation and commissions	**17,503**	50,948	**9,912**	29,396
Administration costs	**16,517**	24,379	**10,737**	15,744
Maintenance	**14,805**	24,390	**12,023**	19,312
Insurance and property taxes	**14,505**	16,047	**11,980**	12,819
Marketing expenses	**11,828**	36,063	**8,698**	25,335
Food and beverage	**10,455**	43,374	**7,244**	31,634
Laundry, linen and cleaning	**4,640**	7,988	**2,768**	2,994
IT expenses	**4,167**	5,235	**3,238**	3,674
Supplies	**3,649**	9,571	**2,582**	6,605
Travel and transport	**2,779**	5,782	**1,798**	3,932
Management fee	-	-	**3,680**	17,241
Other expenses	**13,983**	24,652	**5,422**	13,117
	250,222	534,800	**163,772**	374,200

Salaries and related expenses in 2020 are reduced by amount of 48,6 million of government grants on the Group level, and 37,2 amount on the Company level (2019: Nil).

The Group's other expenses include auditors fees in amount of HRK 1,062 thousand (2019: 930 thousand), and auditors fees for the half year review of HRK 68 thousand (2019: 274 thousand). In addition, the Group engaged tax consultants and the tax consultancy expenses for 2020 sum up to a total amount of HRK 141 thousand (2019: 197 thousand).

The Company's other expenses include auditors fees in amount of HRK 497 thousand (2019: 441 thousand), and auditors fees for the half year review of HRK 68 thousand (2019: 67 thousand). In addition, the Company engaged the tax consultants and tax consultancy expenses for 2020 sum up to a total amount of HRK 72 thousand (2019: 72 thousand).

NOTE 20 FINANCIAL EXPENSES

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Interest and other finance expenses on bank loans	**22,141**	23,129	**13,250**	14,525
Exchange rate differences	**15,626**	1,857	-	2,149
Interest on lease liability	**4,386**	4,641	-	-
Penalty interest	**2,695**	-	**2,695**	-
Other	**199**	628	**2**	244
	45,047	30,255	**15,947**	16,918

NOTE 21 FINANCIAL INCOME

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Interest revenue on loans given to joint ventures	**807**	813	-	-
Other financial revenue	**29**	36	**26**	33
Exchange rate differences	-	-	**1,929**	-
Interest revenue on related party loan	-	-	**5,125**	5,747
	836	849	**7,080**	5,780

NOTE 22 OTHER INCOME/(EXPENSES)

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Disposal of fixed assets	**(14.195)**	-	**(13.279)**	-
Riviera settlement expenses	**(13.090)**	-	**(13.090)**	-
Provision release	-	8,507	-	8,507
Profit of disposed fixed assets	**1.430**	-	**1.430**	-
Other income	-	16	-	16
Pre-opening expenses	**(1.043)**	(1,437)	**(1.043)**	(1,437)
Other expenses	**(3.934)**	(421)	**(1.200)**	(22)
	(30.832)	6,665	**(27.182)**	7,064

NOTE 23 INCOME TAX

a. Tax (benefit)/expense included in the income statement

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Current taxes	**2,094**	(5,654)	-	(11,774)
Deferred taxes	**(7,068)**	(34,551)	**(5,106)**	(34,551)
	(4,974)	(40,205)	**(5,106)**	(46,325)

b. The following are the major deferred tax (liabilities) and assets recognised by the Group and changes therein during the period

	Tax loss carry forward HRK'000	Timing difference on provisions and accruals HRK'000	Property, plant and equipment HRK'000	Tax Incentives for Investments HRK'000	Total HRK'000
Balance as at 31 December 2018	791	6,631	16,856	-	24,278
Amounts credited to income statement	-	2,235	-	41,285	43,520
Amounts charged to income statement	(180)	(5,571)	(3,399)	-	(9,150)
Adjustment for exchange rate differences	2	-	-	-	2
Balance as at 31 December 2019	613	3,295	13,457	41,285	58,650
Amounts credited to income statement	1,960	839	-	9,475	12,274
Amounts charged to income statement	-	(978)	(4,230)	-	(5,208)
Adjustment for exchange rate differences	(2)	-	-	-	(2)
Balance as at 31 December 2020	**2,571**	**3,156**	**9,227**	**50,760**	**65,714**

c. The following are the major deferred tax (liabilities) and assets recognised by the Company and changes therein during the period:

	Timing difference on provisions and accruals HRK'000	Property, plant and equipment HRK'000	Tax Incentives for Investments HRK'000	Total HRK'000
Balance as at 31 December 2018	6,630	16,856	-	23,486
Amounts credited to income statement	2,235	-	41,285	43,520
Amounts charged to income statement	(5,570)	(3,399)	-	(8,969)
Balance as at 31 December 2019	3,295	13,457	41,285	58,037
Amounts credited to income statement	839	-	9,475	10,314
Amounts charged to income statement	(978)	(4,230)	-	(5,208)
Balance as at 31 December 2020	**3,156**	**9,227**	**50,760**	**63,143**

c. Reconciliation between tax (benefit)/expense and the product of accounting profit multiplied by the Company's tax rate is as follows:

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Profit/(loss) before income taxes	**(232,257)**	108,772	**(108,278)**	78,135
Expected tax at the tax rate of Croatia 18% (2019: 18%)	**(41,806)**	19,579	**(19,490)**	14,064
Adjustments in respect of:				
Effect of other Countries tax rate	**(179)**	1,206	-	-
Non-deductible expenses	**7,814**	1,197	**224**	224
Utilisation of carry forward losses for which deferred tax assets were not previously recorded	**(4,932)**	(1,367)	-	-
Income tax for previous years	-	(11,857)	-	(11,774)
Non-taxable income	**(6,094)**	(198)	**(6,094)**	(74)
Tax incentives used (recognized) in current period	-	(7,480)	-	(7,480)
Increase in Tax Incentives in the period	**(9,475)**	(41,285)	**(9,475)**	(41,285)
Carry forward losses on which deferred tax asset has not been recognized	**49,698**	-	**29,729**	-
Income tax (benefit)/expense reported in the income statement	**(4,974)**	(40,205)	**(5,106)**	(46,325)

d. Tax incentives

In May 2019, based on confirmation from the Ministry of Economy and pursuant to the Investment Promotion and Development of Investment Climate Act, the Company became eligible to claim incentive allowances. Investments eligible for incentives are investments including Arena One 99 Glamping Campsite, Arena Grand Kažela Campsite, Hotel Brioni, Verudela Beach self-catering apartment complexes, among others.

The Company has the right to use the investment tax credits until 2028. The execution of the investment project is subject to supervision by the relevant institutions throughout the period of use of the tax credits and the Company will need to present regular annual reports to the tax authority in which it will evidence that the conditions for the use of the tax credits are met.

During 2020 the Company has invested in Arena Grand Kažela Campsite, Hotel Brioni and Verudela Beach self-catering apartment complexes. Deferred tax asset in the total amount of HRK 9.5 million has been recognized in relation to the investment in Arena Grand Kažela Campsite, since this is only property where the investment was completed and all other conditions were met. Recognition of deferred tax asset on other projects will be assessed in 2021, taking into consideration the fulfilment of all prescribed conditions as well as the possible utilization of the tax credits in the future.

e. Tax laws applicable to the Companies of the Group:

(i) The Company is subject to taxation under the law of Croatia. The Company was taxed at the standard rate of 18%.

(ii) Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:

a) Taxation in Germany: corporate income tax rate and business rates is 29.72%.

b) Taxation in Hungary: corporate income tax rate is 18%.

c) Taxation in the Netherlands: corporate income tax rate is 25%.

f. Losses carried forward for tax purposes:

The Company and subsidies in Croatia have carry forward losses for tax purposes at the balance sheet date in the total amount of HRK 44.8 million. Deferred tax assets were partially recognised in the amount of HRK 2.0 million.

The Group has carry forward losses for tax purposes at the balance sheet date in Germany in the amount of HRK 154.9 million for corporation tax and amount of HRK 106.7 for trade tax purposes. Deferred tax assets were partially recognised in the amount of HRK 0.6 million.

NOTE 24 EARNINGS PER SHARE

The following reflects the income and number of shares data used in the basic earnings per share computations:

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Profit/(loss) for the year	**(227,283)**	148,976	**(103,172)**	124,460
Weighted average number of ordinary shares outstanding	**5,084,206**	5,118,855	**5,084,206**	5,118,855
Basic and diluted earnings per share	**(44.70)**	29.10	**(20.29)**	24.31

Basic earnings per share is equal to diluted earnings per share.

NOTE 25 SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The Group's and the Company's chief operating decision maker is the Management Board. Following the management approach of IFRS 8, Operating Segments are reported in accordance with the internal reporting provided to the Management Board who are responsible for allocating resources to the reportable segments and assessing their performance.

For management purposes, the Group's and the Company's activities are divided into hotel operations, self-catering holiday apartment complex operations, campsite operations and central services operations. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocation and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the income statement.

	Year ended 31 December 2020					
Group	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
Revenue						
Third party	129,576	28,042	75,660	5,036	-	238,314
Inter segment				48,825	(48,825)	
Total revenue	129,576	28,042	75,660	53,861	(48,825)	238,314
Segment EBITDA	(12,381)	(3,838)	14,828	(16,866)	-	(18,257)
Depreciation and amortisation	(64,606)	(13,308)	(26,196)	(4,502)	-	(108,612)
Impairment loss	(23,343)					(23,343)
Financial expenses						(45,047)
Financial income						836
Other (expenses)/income						(30,832)
Share in result of joint venture						(7,002)
Profit/(loss) before tax						(232,257)

	Croatia HRK'000	Germany, Hungary and Serbia HRK'000	Total HRK'000
Geographical information			
Non-current assets[1]	1,513,355	674,931	2,188,286

1 Non-current assets for this purpose consist of property, plant and equipment.

	Year ended 31 December 2019					
Group	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
Revenue						
Third party	493,927	105,362	170,386	8,429	-	778,104
Inter segment	-	-	-	108,480	(108.480)	-
Total revenue	493,927	105,362	170,386	116,909	(108.480)	778,104
Segment EBITDA	128,479	29,327	68,764	2,932	-	229,502
Depreciation and amortisation	(64,666)	(12,112)	(19,449)	(3,272)	-	(99,499)
Financial expenses						(30,255)
Financial income						849
Other (expenses)/income						6,665
Share in result of joint venture						1,509
Profit/(loss) before tax						108,771

	Croatia HRK'000	Germany, Hungary and Serbia HRK'000	Total HRK'000
Geographical information Non-current assets[1]	1,376,480	635,862	2,012,342

1 Non-current assets for this purpose consist of property, plant and equipment.

	Year ended 31 December 2020					
Company	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
Revenue						
Third party	54,973	28,042	75,660	9,010	-	167,685
Inter segment	-	-	-	37,568	(37,568)	-
Total revenue	54,973	28,042	75,660	46,578	(37,568)	167,685
Segment EBITDA	(7,926)	(3,838)	14,828	(5,446)	-	(2,382)
Depreciation and amortisation	(27,590)	(13,308)	(26,196)	(2,753)	-	(69,847)
Financial expenses						(15,947)
Financial income						7,080
Other (expenses)/income						(27,182)
Profit/(loss) before tax						(108,278)
Non-current fixed assets	682,515	374,694	379,294	76,852	-	1,513,355

All the Company's non-current assets are located in Croatia.

Company	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
	Year ended 31 December 2019					
Revenue						
Third party	243,826	105,362	170,386	8,302	-	527,876
Inter-segment	-	-	-	67,594	(67,594)	-
Total revenue	243,826	105,362	170,386	75,896	(67,524)	527,876
Segment EBITDA	56,326	29,327	68,764	(10,772)	-	143,645
Depreciation and amortisation	(27,660)	(12,112)	(19,449)	(2,215)	-	(61,436)
Financial expenses						(16,918)
Financial income						5,780
Other expenses						7,064
Profit/(loss) before tax						78,135
Non-current fixed assets	597,170	341,759	361,036	76,149	-	1,376,114

All the Company's non-current assets are located in Croatia.

NOTE 26 RELATED PARTIES

Parties are considered to be related if one of the parties has the power to exercise control over the other party or if it has significant influence over the other party in making financial or operational decisions. The Company is controlled by Dvadeset Osam d.o.o., which owned 52.95% of the Company's shares as at 31 December 2020. The ultimate parent is PPHE Hotel Group Limited which owns 100% of shares of Dvadeset Osam d.o.o.

Additionally, all other subsidiaries of PPHE Hotel Group are treated as related parties.

a. Balances with related parties

	As at 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Assets:				
Short-term receivables – Park Plaza Hotels Europe B.V.	**794**	30	**681**	-
Short-term receivables – from joint ventures	**572**	709	-	-
Short-term receivables – PPHE Nuernberg Operator Hotelbetriebsgesellschaft mbh	-	-	**49**	64
Short-term receivables – Arena Hospitality Management d.o.o	-	-	**1,426**	-
Short-term receivables – Germany Real Estate B.V.	-	-	**5,679**	711
Short-term receivables – Sugarhill Investments B.V.	-	-	**171**	562
Long-term loans to joint ventures	**42,558**	35,111	-	-
Long-term loans to Sugarhill Investments B.V.	-	-	**5,276**	-
Long-term loan to Germany Real Estate B.V.	-	-	**144,605**	142,795
Liabilities:				
Trade payables – Arena Hospitality Management d.o.o.	-	-	-	2,283
Trade payables – PPHE (Germany) B.V.	**13,181**	10,285	-	-
Trade payables – Park Plaza Hotels Europe B.V.	**702**	1,825	**702**	1,825

b. Transactions with related parties

	Year ended 31 December			
	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Management fee revenue from joint ventures	**507**	2,944	-	-
Service charge revenue – joint ventures	**1,534**	2,945	-	-
Reimbursement of employee expenses – PPHE Nuernberg Operator Hotelbetriebsgesellschaft mbh	-	-	-	62
Reimbursement of employee expenses – art'otel® berlin city center west GmbH	-	-	-	41
Reimbursement of employee expenses – Arena Hospitality Management d.o.o.	-	-	**6,606**	6,725
Reimbursement of advisory expenses – Sugarhill Investments B.V.	-	-	-	562
Reimbursement of marketing and other expenses – Park Plaza Hotels Europe B.V.	**797**	-	**797**	-
Interest income – joint ventures	**807**	813		-
Interest income – Sugarhill Investments B.V.	-	-	**171**	-
Interest income – Germany Real Estate B.V.	-	-	**4,954**	5,747
Management fees expense – Arena Hospitality Management d.o.o.	-	-	**3,680**	17,241
Reimbursement of employee expenses – Park Plaza Hotels Berlin Wallstrasse GmbH	-	-	-	90
Sales and marketing fees – Park Plaza Hotels Europe B.V.	**6,331**	20,773	**6,331**	20,773
Sales and marketing fees – PPHE (Germany) B.V.	**2,986**	10,000	-	-

c. Significant other transactions with related parties

(i) Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) occur occasionally

(ii) Compensation to key management personnel (Management and Supervisory Board members) for the year ended 31 December 2020:

Group and Company	**Base salary and fees HRK'000**	**Bonus HRK'000**	**Pension contributions HRK'000**	**Other benefits HRK'000**	**Total HRK'000**
Management Board	5,122	-	623	688	6,433
Supervisory Board	897	-	99	-	996
	6,019	-	722	688	7,429

Compensation to key management personnel (Management and Supervisory Board members) for the year ended 31 December 2019:

Group and Company	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Management Board	5,808	5,333	1,000	414	12,555
Supervisory Board	1,009	-	112	-	1,121
	6,817	5,333	1,112	414	13,676

NOTE 27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and Company's principal financial instruments, other than derivatives, and marketable securities comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Group's and Company's operations. The Group and the Company have various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Group	1 January 2020 HRK'000	Cash flows HRK'000	Reclassification HRK'000	Foreign exchange movement HRK'000	New loans HRK'000	Other HRK'000	31 December 2020 HRK'000
	Changes in financial liabilities arising from financing activities						
Non-current interest-bearing loans	920,126	-	(63,365)	9,819	125,132	(1,419)	990,293
Derivative financial instruments	6,442	-	-	-	-	1,469	7,911
Current interest-bearing loans	58,262	(45,845)	63,365	-	-	178	75,960
	984,830	(45,845)	-	9,819	125,132	228	1,074,164

Group	1 January 2019 HRK'000	Cash flows HRK'000	Reclassification HRK'000	Foreign exchange movement HRK'000	New loans HRK'000	Other HRK'000	31 December 2019 HRK'000
	Changes in financial liabilities arising from financing activities						
Non-current interest-bearing loans	891,579	-	(53,370)	2,476	79,499	(58)	920,126
Derivative financial instruments	2,498	-	-	-	-	3,944	6,442
Current interest-bearing loans	52,238	(48,381)	53,370	-	-	1,036	58,263
	946,315	(48,381)	-	2,476	79,499	4,922	984,831

Company	1 January 2020 HRK'000	Cash flows HRK'000	Reclassification HRK'000	Foreign exchange movement HRK'000	New loans HRK'000	Other HRK'000	31 December 2020 HRK'000
	Changes in financial liabilities arising from financing activities						
Non-current interest-bearing loans	568,385	-	(49,577)	5,326	93,506	(275)	617,365
Current interest-bearing loans	44,099	(37,938)	49,577			(901)	54,837
	612,484	(37,938)	-	5,326	93,506	(1,176)	672,202

Company	1 January 2019 HRK'000	Cash flows HRK'000	Reclassification HRK'000	Foreign exchange movement HRK'000	New loans HRK'000	Other HRK'000	31 December 2019 HRK'000
	Changes in financial liabilities arising from financing activities						
Non-current interest-bearing loans	527,208	-	(39,312)	1,248	79,499	(258)	568,385
Current interest-bearing loans	38,329	(34,577)	39,312	-	-	1,035	44,099
	565,537	(34,577)	-	1,248	79,499	777	612,484

The Group and the Company also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's and Company's operations and its sources of finance. It is, and has been throughout the years under review, the Group's and Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's and Company's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The Management Board reviews and agrees on policies for managing each of these risks which are summarised below. The Group's and Company's accounting policies in relation to derivatives are set out in Note 2.

a. Foreign currency risk

The Group and the Company operate internationally and are exposed to foreign exchange risk. Revenues are mainly linked to the Euro, while operating costs in Croatia are mainly realised in Kuna.

The Kuna has experienced a slight tendency to decrease in value. The Group's and the Company's policy is to hold cash reserves in foreign currency in its foreign exchange bank account.

Majority of the Company's long term borrowings are linked to the currency clause (EUR).

The Group and the Company maintain an active policy of foreign exchange risk hedging by keeping cash in foreign currency accounts, concluding contracts with banks using a more favourable exchange rate than the one officially published, and contracting operating liabilities in Kuna without linking to the currency clause.

As at 31 December 2020, if the Euro had weakened/strengthened by 1.0% (2019: 1.0%) against the Kuna, with all other variables held constant, the loss for the year would have been HRK 10.7 million higher/lower (2019: HRK 10.9 million), mainly as a result of foreign exchange gains/(losses) on conversion of EUR denominated borrowings, trade payables, trade and other receivables and foreign cash funds. This risk is reduced by the fact that the majority of revenues are contracted in Euro.

b. Interest rate risk

The Group's and Company's policy is to manage its interest costs using fixed rate debt. To manage its interest costs, the Group and Company enter into interest rate swaps, in which the Group and the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Group and Company uses fixed interest rate debts. For this reason the Group's and the Company's cash flow are not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's and Company's equity as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt servicing obligation.

The fair value of the swaps of the Group as at 31 December 2020 amounts to a liability of HRK 7,911 thousand.

c. Credit risk

The Group and the Company trade only with recognised, creditworthy third parties. They have policies in place to ensure that sales of products/services are made to customers with an appropriate credit history. The Group's and the Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group and the Company trade only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group and the Company have no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables.

The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables has been written down to the irrecoverable amount. The result of these actions is that the Group's and the Company's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group and the Company, which comprise cash and cash equivalents and investment in securities, the Group's and the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group and the Company have limited concentration risk in respect of its cash at banks.

d. Litigation and administrative procedures as a risk factor in business

In addition to financial risk factors, the Group and the Company are exposed to the risk of adverse outcomes of legal proceedings. The most significant is:

(i) Based on the Medulin Municipality's ownership interest which is registered in the land registry with respect to certain land plots of the campsites Medulin, Stupice and Runke, the Medulin Municipality filed a law suit against the Company for compensation for the use of such land from December 1997 currently amounting to EUR 8.9 million (around HRK 66.6 million) plus interest. It also demanded transfer of possession of the respective parts of those campsites. The Company claimed that pursuant to the Act, the Company acquired co-ownership of the campsites Medulin, Stupice and Runke, together with the Republic of Croatia, and therefore, that the Medulin Municipality is not entitled to claim for payment of land use remuneration and transfer of possession of land plots in the campsites. In addition to objecting to the claim of the Medulin Municipality, the Company filed a counterclaim against the Medulin Municipality in the amount of HRK 124.5 million as the Company have made various investments in the campsites. The court in first instance has suspended the proceedings. It awaits the outcome of the proceedings on the determination of the actual size of the maritime domain areas within the campsites and until a final agreement has been reached between the Municipality of Medulin and the Republic of Croatia on the ownership of the land of the campsites.

The Management Board alongside the Group's and Company's professional advisers are monitoring all litigation and court proceedings carefully and responsibly in order to prevent possible negative outcomes.

c. Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments:

	As at 31 December 2020					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	15,372	78,540	86,332	287,224	726,253	1,193,721
Accrued fee for the tourist land concession	-	5,227	-	-	-	5,227
Trade payables	25,073	-	-	-	-	25,073
Liabilities toward related parties	13,884	-	-	-	-	13,884
Other payables and accruals	7,798	13,514				21,312
	62,127	97,281	86,332	287,224	726,253	1,259,217

	As at 31 December 2019					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	7,972	61,537	69,451	214,992	778,173	1,132,125
Accrued fee for the tourist land concession	-	3,547	-	-	-	3,547
Trade payables	28,758	-	-	-	-	28,758
Liabilities toward related parties	12,110	-	-	-	-	12,110
Other payables and accruals	15,943	20,777	-	-	-	36,720
	64,783	85,861	69,451	214,992	778,173	1,213,260

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments:

	As at 31 December 2020					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	9,342	53,943	61,804	185,277	437,198	747,564
Accrued fee for the tourist land concession	-	5,227	-	-	-	5,227
Trade payables	13,587	-	-	-	-	13,587
Liabilities toward related parties	702	-	-	-	-	702
Other payables and accruals	7,141	5,288	-	-	-	12,429
	30,772	64,458	61,804	185,277	437,198	779,509

	As at 31 December 2019					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	3,073	46,480	49,737	155,016	434,587	689,225
Accrued fee for the tourist land concession	-	3,547	-	-	-	3,547
Trade payables	15,708	-	-	-	-	15,708
Liabilities toward related parties	4,108	-	-	-	-	4,108
Other payables and accruals	12,623	6,338	-	-	-	18,961
	35,512	56,365	49,737	155,016	434,587	731,549

f. Capital management

The primary objective of the Group's and the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

	Group		Company	
	2020 HRK' 000	2019 HRK' 000	**2020 HRK' 000**	2019 HRK' 000
Interest-bearing bank loans and borrowings	**1,066,385**	978,389	**672,202**	612,484
Less – cash and cash equivalents	**(425,613)**	(718,891)	**(370,878)**	(597,071)
Less – other current financial assets	**(224)**	(221)	**(224)**	(221)
Net debt	**640,548**	259,277	**301,100**	15,192
Equity	**1,533,510**	1,756,463	**1,933,009**	2,033,171
Hedging reserve	**(9,826)**	(9,061)	-	-
Total capital	**1,523,684**	1,747,402	**1,933,009**	2,033,171
Capital and net debt	**2,164,232**	2,006,680	**2,234,109**	2,048,363
Gearing ratio	**29.60%**	12.92%	**13.48%**	0.74%

The Group and the Company manage its capital structure and make adjustments to it in light of changes in economic conditions. The Group and the Company monitor capital using a gearing ratio, which is net bank debt divided by total capital plus net bank debt. The Group's policy is to keep the gearing ratio between 30% and 50%. The Group and the Company include within net bank debt, interest bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets. Capital includes equity less the hedging reserve.

g. Fair value of financial instruments

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long term fixed rate and variable rate receivables are evaluated by the Group and the Company based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

The fair value of loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of available for sale financial assets is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group and the Company is the current bid price. These instruments are included in Level 1. The Group and the Company entered into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves.

Fair value is the amount that would be received on sale at an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques based on a discounted cash flow. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fairly value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Fair value hierarchy

The Group and the Company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique based on the lowest level input that is significant to the fair value so determined:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2020, the Group held the following financial instruments measured at fair value:

Liability:

	31 December 2020 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Interest rate swaps used for hedging	**7,911**	-	7,911	-

Asset:

	31 December 2020 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available for sale – financial assets	**224**	224	-	-

During 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As at 31 December 2019, the Group held the following financial instruments measured at fair value:

	31 December 2019 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Interest rate swaps used for hedging	6,442	-	6,442	-

As at 31 December 2019, the Group and the Company held the following financial instruments measured at fair value:

	31 December 2019 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available for sale – financial assets	221	221	-	-

During 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The carrying amounts and fair values of the Group's financial instruments other than those whose carrying amount approximates their fair value:

	Carrying amount 31 December		Fair value 31 December	
	2020 HRK'000	2019 HRK'000	**2020 HRK'000**	2019 HRK'000
Financial assets				
Available for sale – financial assets	**224**	221	**224**	221
Financial liabilities				
Bank borrowings*	**1,066,385**	978,389	**1,070,843**	1,001,279

* Based on Level 2 inputs.

i. Derivative financial instruments

The part of the Group's borrowings are at variable interest rates based on EURIBOR. To limit its exposure to changes in the rates of EURIBOR on its cash flows and interest expense, the Group has entered into various interest rate swaps, as described above. The Company m-eets the relevant criteria in IFRS 9 to apply hedge accounting and the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in other comprehensive income. All fair value movements that are determined to be ineffective are recorded in profit and loss.

NOTE 28 SUBSEQUENT EVENTS

There were no significant events occurring after the date of the Financial Statements.

APPENDICES

Subsidiaries included in the Group

SUBSIDIARIES INCLUDED IN THE GROUP				
NAME OF GROUP	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	FUNCTIONAL CURRENCY	DIRECT AND INDIRECT HOLDINGS %
Ulika d.o.o.[1]	Holding Company	Croatia	HRK	100
Mažurana d.o.o.[1]	Holding Company	Croatia	HRK	100
Germany Real Estate B.V.[1]	Holding Company	The Netherlands	EUR	100
ACO Hotel Holding B.V.[2]	Holding Company	The Netherlands	EUR	100
ABK Hotel Holding B.V.[2]	Holding Company	The Netherlands	EUR	100
Sugarhill Investments B.V.[1]	Holding Company	The Netherlands	EUR	100
Arena Hospitality Management d.o.o.[2,3]	Management Company	Croatia	HRK	100
Park Plaza Hotels (Germany) Services GmbH[2,3]	Management Company	Germany	EUR	100
PPHE Germany Holdings GmbH[2,3]	Holding Company	Germany	EUR	100
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH[2,3]	Hotel Operation	Germany	EUR	100
Park Plaza Germany Holdings GmbH[2,3]	Holding Company	Germany	EUR	100
Park Plaza Nürnberg GmbH[2,3]	Hotel Operation	Germany	EUR	100
Park Plaza Hotels Berlin Wallstrasse GmbH [2,3]	Hotel Operation	Germany	EUR	100
art'otel berlin city center west GmbH[2,3]	Hotel Operation	Germany	EUR	100
art'otel Köln Betriebsgesellschaft mbH[2,3]	Hotel Operation	Germany	EUR	100
SW Szállodaüzemeltető Kft.[2,3]	Hotel Operation	Hungary	HUF	100
Arena 88 Rooms Holding d.o.o. [2,3]	Hotel Operation	Serbia	RSD	100
Arena 88 rooms d.o.o. [2,3]	Hotel Operation	Serbia	RSD	100

APPENDICES

Jointly controlled entities

JOINTLY CONTROLLED ENTITIES				
NAME OF GROUP	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	FUNCTIONAL CURRENCY	PROPORTION OF OWNERSHIP INTEREST %
art otel Berlin Mitte /Park Plaza betriebsgesellschaft mbH	Hotel Operation	Germany	EUR	50
Park Plaza betriebsgesellschaft mbH	Hotel Operation	Germany	EUR	50
ABK Hotel Holding B.V.	Holding Company	The Netherlands	EUR	50
ABM Hotel Holding B.V.	Holding Company	The Netherlands	EUR	50

1 Direct holdings
2 Indirect holdings
3 Subsidies (direct and indirect) 100% or 50% owned by Sugarhill

APPENDICES

Glossary

A

Arena Hospitality Group: Arena Hospitality Group d.d. is one of the most dynamic hospitality groups in Central and Eastern Europe, currently offering a portfolio of 27 owned, co-owned, leased and managed properties with more than 10,000 rooms and accommodation units in Croatia, Germany, Hungary and Serbia. PPHE Hotel Group has a controlling ownership interest in Arena Hospitality Group.www.arenahospitalitygroup.com.

ADR: Average daily rate. Total room revenue divided by number of rooms sold.

art'otel®: A lifestyle collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide www.artotels.com

C

CEE region: the Central and Eastern Europe region.

Company: Arena Hospitality Group d.d., with registered seat in Pula, Smareglina ulica 3, Croatia, registered in the court register of the Commercial Court in Pazin under number (MBS) 040022901, personal identification number (OIB) 47625429199

D

Distribution: Encompasses all the electronic channels of distribution, which include GDS, brand websites and third party intermediaries. These distribution channels can be accessed through the Internet, an intranet or through an interfaced connection.

DSCR: debt service coverage ratio. Calculated as annual available cash flow (free cash flow before debt repayment toward banks and other financial institutions divided by annual/ 12-month period debt service toward banks and other financial institutions (principal payments and financing cost like interest expenses and other fees). The difference between DSCR 1 and 2 is the beginning of the year cash balance which is included in the calculation of DSCR 1.

E

Earnings (loss) per share: Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

EBITDA: Earnings before interest, tax, depreciation and amortization.

EBITDA margin: EBITDA divided by total revenue.

EBITDAR: Earnings before interest, tax, depreciation, amortization, impairment loss and rental expenses, share of associate and exceptional items presented as other income and tax (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key management indicator.

Equity ratio: defined as the ratio between equity and reserves, decreased for any goodwill, loans to shareholder and advance dividend payment, and the total liabilities.

F – O

GDPR: General Data Protection Regulation

Group: Company and its consolidated subsidiaries (companies subject of a requirement to consolidate their financial statements).

Interest cover ratio: defined as the ratio between EBITDA and the total amount of interest accrued during the corresponding period.

Like-for-like: Results achieved through operations that are comparable with the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.

Management Board: Reuel ('Reli') Slonim (President of Management Board), Devansh Bakshi (Member of the Management Board and CFO), Manuela Kraljević (Member of the Management Board and Marketing and Sales Director) and Edmond Pinto (Member of the Management Board and Chief Operating Officer).

Net leverage ratio: defined as (Total Debt – Cash and cash equivalents)/ EBITDA.

Occupancy: total occupied rooms divided by net available rooms or RevPAR divided by average room rate.

P – Z

Park Plaza® Hotels & Resorts: upper upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Radisson Hotel Group. PPHE Hotel Group has the exclusive right to develop the brand across 56 countries in Europe, the Middle East and Africa. www.parkplaza.com.

PPHE Hotel Group: PPHE Hotel Group Limited is an international hospitality real estate company, with a £1.7 billion portfolio of primarily prime freehold and long leasehold assets in Europe. The Group benefits from having an exclusive and perpetual license from the Radisson Hotel Group, one of the world's largest hotel groups, to develop and operate Park Plaza® branded hotels and resorts in Europe, the Middle East and Africa. In addition, the Group wholly owns, and operates under, the art'otel® brand. www.pphe.com

Radisson Rewards: The global hotel rewards programme from the Radisson Hotel Group which includes Park Plaza® Hotels & Resorts and art'otel®. The program is owned by Radisson Hotel Group. Gold Points® is the name of the currency earned through the Radisson Rewards program. www.radissonrewards.com

Responsible Business: Arena Hospitality Group has adopted PPHE Hotel Group's Responsible Business programme; which includes a dedicated mission statement and four pillars reflecting key areas of impact. We pride ourselves on our mission to be responsible in everything we do as a business through our pillars; inspiring our guests, creating centres of excellence, developing our people and being part of our communities. This new developed responsible business strategy builds on the corporate social responsibility (CSR) activity of previous years to create a long-term sustainable responsible business model.

RevPAR: Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

Sugarhill: Sugarhill Investments B.V.

Sugarhill Group: Sugarhill and its subsidiaries.

Supervisory Board: Boris Ivesha (Chairman), Yoav Papouchado (Vice Chairman), Kevin Michael McAuliffe (Member), Marino Derossi (Member), Amra Pende (Member), Lorena Škuflić (Member) and Goran Nikolić (Member appointed by employees' council)

APPENDICES

Contacts

Supervisory Board

Boris Ivesha, Chairman

Yoav Papouchado, Vice Chairman

Kevin McAuliffe, Member

Amra Pende, Member

Lorena Škuflić, Member

Marino Derossi, Member

Goran Nikolić, Member appointed by employees' council

Management Board

Reuel ('Reli') Slonim, President of the Management Board

Manuela Kraljević, Member of the Management Board & Marketing and Sales Director

Devansh Bakshi, Member of the Management Board & Chief Financial Officer

Edmond Pinto, Member of the Management Board & Chief Operating Officer

Key Contacts

Luka Cvitan, Strategy, Capital Markets and IR

Neven Čale, Reporting Manager

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Useful Links

Corporate and reservation websites:

arenahospitalitygroup.com

arenahotels.com

arenacampsites.com

artotels.com

parkplaza.com

88rooms.com

radissonhotels.com/en-us/brand/park-plaza

Strategic partners:

PPHE Hotel Group

pphe.com

Radisson Hotel Group

radissonhotelgroup.com